



ZUE Capital Group

**CONSOLIDATED HALF-YEARLY REPORT
FOR 6 MONTHS ENDED 30 JUNE 2017**

Cracow, 21 August 2017

Contents of the consolidated half-yearly report:

- I. Selected Financial Data of the Group.
- II. Condensed Consolidated Financial Statements of the Group and Notes to the Financial Statements.
- III. Selected Financial Data of ZUE.
- IV. Condensed Separate Financial Statements of ZUE and Notes to the Financial Statements, and the following separate documents:
 - Management Board Report;
 - Auditor's Report on Review of Condensed Consolidated Financial Statements of the Group; and
 - Auditor's Report on Review of Condensed Separate Financial Statements of ZUE.

Abbreviations and definitions:

ZUE, Company, Issuer	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. Parent company of the ZUE Capital Group.
BPK Poznań	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. Subsidiary of ZUE.
Railway gft	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. Subsidiary of ZUE.
RTI	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. Subsidiary of ZUE.
RTI Germany	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. Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
ZUE Group, Group, Capital Group	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
USD	American dollar.
Act	Polish Companies Act (Journal of Laws 2000, no. 94, item 1037, as amended).

Share capital details as at 30 June 2017.

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ZUE Capital Group

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR 6 MONTHS ENDED 30 JUNE 2017**

Cracow, 21 August 2017

I. SELECTED FINANCIAL DATA OF THE GROUP

Main items of the consolidated statement of financial position translated into EUR:

	As at 30-06-2017		As at 31-12-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	161,145	38,127	143,917	32,531
Current assets	183,562	43,431	219,456	49,606
Total assets	344,707	81,558	363,373	82,137
Equity	194,254	45,961	209,282	47,306
Non-current liabilities	29,829	7,057	25,823	5,837
Current liabilities	120,624	28,540	128,268	28,994
Total equity and liabilities	344,707	81,558	363,373	82,137

Main items of the consolidated statement of comprehensive income translated into EUR:

	Period ended 30-06-2017		Period ended 30-06-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	107,843	25,390	127,774	29,169
Cost of sales	113,662	26,760	122,227	27,903
Gross profit (loss) on sales	-5,819	-1,370	5,547	1,266
Profit (loss) on operating activities	-15,525	-3,655	-2,611	-596
Gross profit (loss)	-17,498	-4,120	-1,497	-342
Net profit (loss) from continuing operations	-14,978	-3,526	-1,560	-356
Total comprehensive income	-15,028	-3,538	-1,547	-353

Main items of the consolidated statement of cash flows translated into EUR:

	Period ended 30-06-2017		Period ended 30-06-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-81,549	-19,200	-40,028	-9,138
Cash flows from investing activities	35,410	8,337	-1,471	-336
Cash flows from financing activities	9,818	2,312	-10,940	-2,497
Total net cash flows	-36,321	-8,551	-52,439	-11,971
Cash at the beginning of the period	62,717	14,177	172,334	40,440
Cash at the end of the period	25,667	6,073	120,648	27,262

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 30-06-2017	Exchange rate on 31-12-2016	Exchange rate on 30-06-2016
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2265	4.4240	n/a
Items of statement of profit or loss and statement of cash flows	Arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month of the period	4.2474	4.3757	4.3805
"Cash at the beginning of the period" and "Cash at the end of the period" items in the statement of cash flows	Mid exchange rate prevailing at the end of the reporting period	4.2265	4.4240	4.4255

II. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Consolidated statement of comprehensive income

(PLN '000)

Continuing operations	Note no.	Period ended	Period ended
		30-06-2017	30-06-2016
Revenue	23	107,843	127,774
Cost of sales		113,662	122,227
Gross profit (loss)		-5,819	5,547
General and administrative expenses		10,359	10,625
Other operating income	24	2,720	3,059
Other operating expenses	25	2,067	592
Profit (loss) on operating activities		-15,525	-2,611
Financial income	26	708	1,742
Financial expenses	27	2,681	628
Pre-tax profit (loss)		-17,498	-1,497
Corporate income tax	28	-2,520	63
Net profit (loss) from continuing operations		-14,978	-1,560
Net profit (loss)		-14,978	-1,560
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		-50	13

Actuarial gains (losses) concerning specific benefit schemes	-50	13
Other total net comprehensive income	-50	13
Total comprehensive income	-15,028	-1,547
Number of shares	23,030,083	23,030,083
Consolidated net profit attributable to:		
Shareholders of the parent	-14,560	-1,250
Non-controlling interests	-418	-310
Net profit (loss) per share (PLN) (basic and diluted)	-0.63	-0.05
Total comprehensive income attributable to:		
Shareholders of the parent	-14,610	-1,237
Non-controlling interests	-418	-310
Total comprehensive income (loss) per share (PLN)	-0.63	-0.05

Consolidated statement of financial position

(PLN '000)

	Note no.	As at 30-06-2017	As at 31-12-2016
ASSETS			
Non-current assets			
Property, plant and equipment	29	93,176	83,416
Investment property	30	4,548	3,717
Intangible assets		9,318	9,595
Goodwill	31	31,172	31,172
Investments in non-consolidated subsidiaries		0	0
Advance payments for investments in subordinates		0	0
Long-term receivables		0	0
Retentions on construction contracts	37	11,731	7,334
Deferred tax assets	28	11,195	8,683
Advanced loans		5	0
Other assets		0	0
Total non-current assets		161,145	143,917
Current assets			
Inventories	33	42,086	11,287
Trade and other receivables	34	108,572	86,609
Retentions on construction contracts	37	417	2,177
Current tax assets	28	0	64
Other financial assets	32	5,577	54,935
Other assets		962	1,378
Advanced loans		281	289
Cash and cash equivalents		25,667	62,717
Total current assets		183,562	219,456
Total assets		344,707	363,373

		(PLN '000)	
	Note no.	As at 30-06-2017	As at 31-12-2016
EQUITY AND LIABILITIES			
Equity			
Share capital		5,758	5,758
Share premium account		93,837	93,837
Treasury shares		-2,690	-2,690
Retained earnings		97,781	112,391
Total equity attributable to shareholders of ZUE		194,686	209,296
Equity attributable to non-controlling interests		-432	-14
Total equity		194,254	209,282
Non-current liabilities			
Long-term loans and bank credits and other financing sources	35	15,263	8,892
Retentions on construction contracts	37	5,847	6,792
Other financial liabilities		490	630
Liabilities under employee benefits		1,927	1,864
Deferred tax liabilities	28	0	0
Long-term provisions	36	6,302	7,645
Deferred income		0	0
Other liabilities		0	0
Total non-current liabilities		29,829	25,823
Current liabilities			
Trade and other payables	38	73,477	82,094
Retentions on construction contracts	37	5,978	9,185
Short-term loans and bank credits and other financing sources	35	18,202	14,194
Other financial liabilities		316	317
Liabilities under employee benefits		15,753	17,928
Current tax liabilities	28	0	0
Short-term provisions	36	6,898	4,550
Total current liabilities		120,624	128,268
Total liabilities		150,453	154,091
Total equity and liabilities		344,707	363,373

Consolidated statement of changes in equity

(PLN' 000)

		Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the Parent	Equity attributable to non-controlling interests	Total equity
Balance at	1 Jan 2017	5,758	93,837	-2,690	112,391	209,296	-14	209,282
Change of interest in subsidiaries		0	0	0	0	0	0	0
Dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	-14,560	-14,560	-418	-14,978
Other net comprehensive income		0	0	0	-50	-50	0	-50
Balance at	30 Jun 2017	5,758	93,837	-2,690	97,781	194,686	-432	194,254

		Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the Parent	Equity attributable to non-controlling interests	Total equity
Balance at	1 Jan 2016	5,758	93,837	-2,690	119,050	215,955	389	216,344
Change of interest in subsidiaries		0	0	0	0	0	0	0
Dividend		0	0	0	-7,513	-7,513	0	-7,513

Issue of shares	0	0	0	0	0	0	0	
Issue costs	0	0	0	0	0	0	0	
Buy-back of shares	0	0	0	0	0	0	0	
Profit (loss)	0	0	0	-1,250	-1,250	-310	-1,560	
Other net comprehensive income	0	0	0	13	13	0	13	
Balance at	30 Jun 2016	5,758	93,837	-2,690	110,300	207,205	79	207,284

Consolidated statement of cash flows

(PLN '000)

	Period ended 30-06-2017	Period ended 30-06-2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-17,498	-1,497
Adjustments for:		
Depreciation and amortisation	4,782	4,747
Foreign exchange gains / (losses)	729	-753
Interest and share in profit (dividends)	231	-547
(Gain) / loss on disposal of investments	-1,139	17
Accrued expenses under commission on credits	-9	0
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit (loss) before changes in working capital	-12,904	1,967
Change in receivables and retentions on construction contracts	-24,648	-9,972
Change in inventories	-30,798	-456
Change in provisions and liabilities under employee benefits	-1,105	-9,920
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	-12,605	-22,497
Change in accrued expenses	427	204
Change in funds of limited availability	0	0
Other adjustments	0	110
Income tax paid / tax refund	84	536
NET CASH FROM OPERATING ACTIVITIES	-81,549	-40,028
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	752	185
Purchase of property, plant and equipment and intangible assets	-14,796	-2,665
Investments in real property and intangible assets	0	-1
Sale / (purchase) of financial assets in other entities	0	0
Sale / (purchase) of financial assets from non-controlling shareholders	0	0
Purchase of financial assets available for sale	0	0
Cash payments to purchase debt instruments of other entities	-166,943	0
Cash from repurchase of debt instruments of other entities	216,028	0
Advanced loans	-9	-13
Repayment of granted loans	4	74
Dividends received	0	0
Interest received	102	949
Gain/loss on repurchase of debt instruments	272	0
Settlement of financial instruments – expenses	0	0

Funds from acquisition of subsidiary	0	0
Sale of financial assets in associates	0	0
Other cash provided by/(used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	35,410	-1,471
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	15,854	138
Repayment of loans and bank credits	0	-140
Decrease in finance lease liabilities	-5,680	-3,154
Interest paid	-355	-271
Other cash provided by / (used in) financing activities – dividends	-1	-7,513
Net cash from issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	9,818	-10,940
TOTAL NET CASH FLOWS	-36,321	-52,439
Net foreign exchange gains / (losses)	-729	753
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	62,717	172,334
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	25,667	120,648

Notes to Condensed Consolidated Financial Statements of the Group

1. Functional and reporting currency

These financial statements have been prepared in Polish zloty (PLN). Polish zloty is the Group's functional and reporting currency. The data in the financial statements has been presented in thousands of Polish zloty, unless specific situations require greater detail.

2. Use of International Financial Reporting Standards

Statement of compliance

The condensed consolidated financial statements have been drawn up in accordance with IAS 34 as at 30 June 2017 as endorsed by the European Union (EU).

The consolidated financial statements for the first six months ended 30 June 2017 have been prepared according to 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.

Standards and interpretations used for the first time in the reporting period

No amendments to the existing standards published by the International Accounting Standards Board (IASB) and approved of by the European Union, which would come into force for the first time in the consolidated financial statements for 2017, occurred when approving these financial statements.

Standards and interpretations published by the EU but not yet effective

When approving these financial statements, the following new standards and amendments to the standards were published by the International Accounting Standards Board (IASB) and approved of by the EU but did not come into force:

- **IFRS 9 “Financial Instruments”** - approved of in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective Date of IFRS 15” - approved of in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

Standards and interpretations adopted by the IASB but not yet approved of by the EU

The International Financial Reporting Standards (IFRS) as endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) save for the following new standards and amendments to the standards not yet approved for use in the EU at this report preparation date:

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided not to approve this standard for use in the EU until the final version of the IFRS 14 is issued;
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 2 “Share-based Payment”** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 “Insurance Contracts”** – Use of IFRS 9 “Financial Instruments” and IFRS 4 “Insurance Instruments” (effective for annual periods beginning on or after 1 January 2018 or upon the use of IFRS 9 “Financial Instruments” for the first time);
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and subsequent amendments (effective date was postponed for indefinite period);
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** – Clarifications to IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 7 “Statement of Cash Flows”** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 “Income Taxes”** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards “Improvements to IFRSs (2014-2016 Cycle)”** – made as part of annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) aimed mainly at the resolution of inconsistencies and specification of vocabulary (amendments to IFRS 12 effective for annual periods beginning on or after 1 January 2017 and amendments to IFRS MSSF 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018);
- **International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021).
- **International Financial Reporting Interpretations Committee's (IFRIC) 23 Uncertainty over Income Tax Treatments** (effective for annual periods beginning on or after 1 January 2019).

The influence of these amendments on future consolidated financial statements of the Group is being analysed.

3. Important accounting principles

Going concern

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.

Preparation basis

The Group has prepared these half-yearly consolidated financial statements according to the regulations set out in IAS 34 "Interim Financial Reporting" and used the same principles for current and comparable period.

Comparability of financial information

No changes in the presentation of financial information have been made in the comparable periods.

Applied accounting principles

These half-yearly consolidated financial statements for the six months ended 30 June 2017 have been prepared according to the same accounting principles and measurement methods as those used in the last annual financial statements of the Group as at 31 December 2016. The financial statements for the financial year ended 31 December 2016 contain a detailed description of accounting principles used by the Group.

These half-yearly consolidated financial statements do not include all the information and disclosures required in the case of annual financial statements and they should be read together with the annual financial statements of ZUE and the annual consolidated financial statements of the Group.

4. Revisions to estimates

The preparation of financial statements in conformity with the IFRS requires the Management Board to make judgments, estimates and assumptions that affect the adopted policies and reported assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods if the revision affects both current and future periods.

Note no. 36 presents the changes in provisions.

Operational information

5. Composition of the Capital Group

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

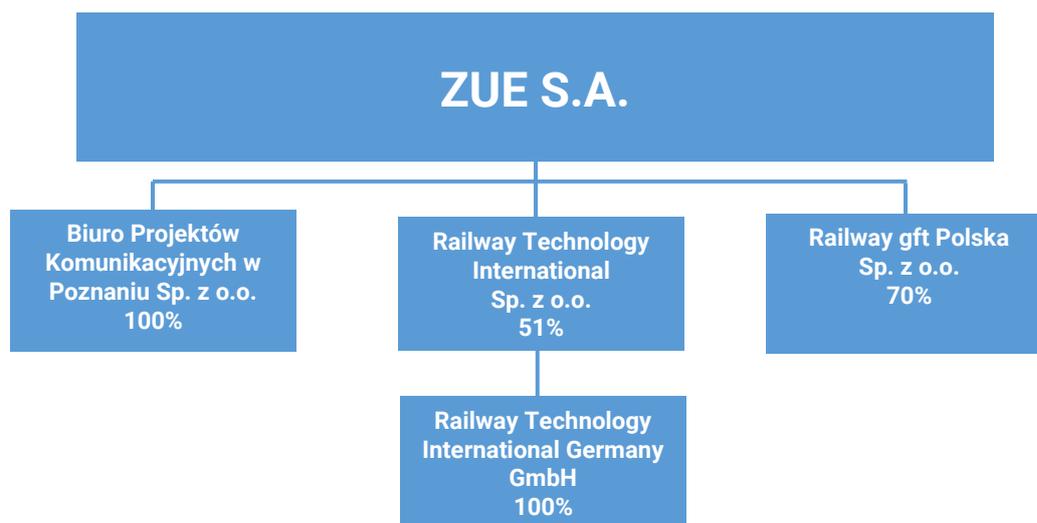
ZUE Spółka Akcyjna with registered office in Cracow (ul. Kazimierza Czapińskiego 3) is the parent company of the Capital Group.

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 Capital Group and to promote the Group's potential among its customers.

Structure of the Capital Group on the date of the report approval:



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.

6. Consolidated companies

Consolidated companies at 30 June 2017:

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

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

No changes to the Group's structure occurred in the first half of 2017.

8. 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, "Ypsilon" steel sleepers.

Segments are discussed in note 41.

9. 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 section 10 below.

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. Bonds, guarantees and credit limits

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.

As at 30 June 2017, unused credit limits under credit agreements signed by the Group amount to PLN 36,093 thousand.

12. Notes on seasonal and cyclical nature of the Group's operations

Construction and assembly operations are marked by the seasonality of production and sales. The main factors with a bearing on revenue and profit in a financial year include weather conditions, schedule of payments and the dates of putting contracts out for tender and awarding contracts.

Rail, urban and power infrastructure projects undertaken by the Group cannot be executed in unfavourable weather conditions. Due to low temperature or snow in winter, many tasks are stopped or slowed down to meet technological regimes.

Another factor with an impact on the seasonal nature of the industry is the fact that investment and modernisation projects undertaken by customers on the construction market primarily take place in spring, summer and autumn.

Corporate information

13. Governing bodies

Composition of the Company's supervisory and management bodies at the date of approval of these financial statements:

Management Board:

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

Supervisory Board:

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

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. Share capital structure

The Company's share capital is 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.

15. Treasury 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.

16. Shareholding structure

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.

17. Shares and powers held by members of the Company's management and supervisory bodies

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.

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

No events significant for the assessment of the Issuer's position other than specified herein occurred in the reporting period.

19. Issue and redemption of debt and equity securities

During the reporting period, no company comprising the Capital Group issued or redeemed any debt securities. No company comprising the Capital Group redeemed any equity securities.

20. Dividend

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. The Supervisory Board of ZUE gave a favourable opinion on the abovementioned recommendations.

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.

Financial information

21. Discussion of financial results

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.

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 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 money deposits paid in the first half of 2017.

Discussion of major items of the statement of financial position

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),
 - 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,
 - 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:
 - a) 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),
 - b) Decrease in trade and other payables by PLN 8,617 thousand.

Discussion of items of the statement of cash flows

(PLN '000)

	Period ended 30-06-2017 PLN '000	Period ended 30-06-2016 PLN '000
Cash flows from operating activities	-81,549	-40,028
Cash flows from investing activities	35,410	-1,471
Cash flows from financing activities	9,818	-10,940
Total net cash flows	-36,321	-52,439
Cash at the beginning of the period	62,717	172,334
Cash at the end of the period	25,667	120,648

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 corporate bonds held by the Company.

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.

Segments

Total revenue generated by the Group is PLN 107,843 thousand. The biggest portion of the revenue was contributed by construction activities.

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.

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

The Company did not publish any forecast 2017 financial results.

23. Revenue

	(PLN '000)	
	Year ended 30-06-2017	Year ended 30-06-2016
Revenue from the sale of goods and raw materials	4,235	25,745
Revenue from the rendering of services	486	1,838
Revenue from construction contracts	103,122	100,191
Total	107,843	127,774

The Group's revenue in the period from 1 January 2017 - 30 June 2017 amounted to PLN 107,843 thousand – down by 16% when compared with revenue in the analogous period of 2016.

In the first half of 2017, both revenue and financial results were influenced by the Management Board's organisation of new contracts won under the present EU perspective. The said contracts, including a large number of "design-build" projects, did not generate significant revenues.

24. Other operating income

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Gain on disposal of assets:	167	0
Gain on disposal of non-current assets	167	0
Other operating income:	2,553	3,059
Re-invoicing of bonds and policies	636	175
Received damages	163	69
Release of write-downs of receivables	274	894
Refund of costs of court proceedings	78	34
Release of provisions for court cases	0	1,500
Release of allowances for inventories	14	306
Release of allowances for investment property	1,000	0
Other	388	81
Total	2,720	3,059

In the first half of 2017, the Group released investment property impairment loss of PLN 1,000 thousand due to change in estimates.

25. Other operating expenses

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Loss on disposal of assets:	0	17
Loss on disposal of non-current assets	0	17
Other operating expenses:	2,067	575
Donations	14	6
Paid damages	99	29
Costs of litigations	3	75

Costs of performance bonds	636	175
Revaluation of inventories	10	20
Write-downs of receivables	1,207	235
Remission of debt	0	3
Other	98	32
Total	2,067	592

In the first half of 2017, the Group recognised the write-downs of PLN 1,207 thousand including the write-down recognised in connection with an invoice for additional works issued by PKP PLK. The invoice is being negotiated.

26. Financial income

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Interest income:	421	870
Interest on bank deposits	104	826
Interest on loans	5	0
Interest on receivables	312	44
Foreign exchange gains	0	839
Gain on disposal of investment	0	0
Dividend income	0	0
Other financial income:	287	33
Discount of long-term items	13	25
Realisation of financial instruments	272	0
Other	2	8
Total	708	1,742

27. Financial expenses

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Interest expenses:	368	288
Interest on bank overdrafts and credits	136	93
Interest on finance lease liabilities	219	182
Interest on loan	3	3
Interest on trade and other payables	10	10
Other financial expenses:	2,313	340
Foreign exchange losses	797	0
Discount of long-term items	1,477	309
Realisation of financial instruments	0	0
Other	39	31
Total	2,681	628

The increase in financial expenses was mainly influenced by a discount of long-term money deposits paid in the first half of 2017.

28. Corporate income tax

Corporate income tax recognised in statement of comprehensive income

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Current income tax	-20	1,102
Deferred tax	-2,500	-1,039
Total tax expense/income	-2,520	63

The tax currently payable is calculated pursuant to applicable tax laws. According to these laws, taxable profit (loss) differs from accounting net profit (loss) because it excludes items of income or expense that are not taxable or deductible and items of income or expense that are never taxable. The Group's tax liability is calculated using tax rates applicable during the fiscal year in question.

The Group is subject to general regulations governing corporate income tax. The Group's entities neither form a tax capital group nor operate in a Special Economic Zone. Tax year and financial year coincide with a calendar year.

Current income tax

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Gross profit (loss)	-17,498	-1,497
Difference between gross profit (loss) and income tax base:	515	-19,523
- differences between gross profit and taxable income resulting from costs that are not tax-deductible under tax regulations and revenue not classified as revenue under tax regulations and additional costs and revenue	515	-19,523
- other differences (including loss brought forward)	0	0
Income/loss	-16,983	-21,020
Income tax base	0	0
Income tax at the applicable rate of 19%	0	0
Income tax paid/(refunded) on profit earned abroad	-20	978
Tax increases, waivers, exemptions, deductions and reductions	0	0
Adjustment of income tax from previous years	0	124
Current income tax	-20	1,102

Current tax assets and liabilities

(PLN '000)

	As at 30-06-2017	As at 31-12-2016
Current tax assets		
Tax refundable	0	64
Total	0	64
Current tax liabilities		
Tax payable	0	0
Total	0	0

Deferred tax balance

(PLN '000)

	As at 30-06-2017	As at 30-06-2016
Deferred tax balance at the beginning of the period	8,683	8,477
Merger opening balance	0	0
Temporary differences relating to deferred tax assets:	19,198	20,140
Provisions for expenses and accruals	8,730	13,022
Discount of receivables	520	251
Measurement of financial instruments	0	0
Liabilities under leases	104	367
Interest charged	0	0
Tax loss	0	0
Other, including allowances for receivables	3,197	3,154
Other – measurement of settlements	0	0
Tax work in progress	6,647	3,346
Deferred tax reclassified from equity	0	0
Temporary differences relating to deferred tax liabilities:	18,723	14,328
Measurement of long-term contracts	8,952	4,277
Deferred income	0	0
Property, plant and equipment and intangible assets	9,143	9,337
Discount of payables	362	375
Interest charged	0	0
Other	266	339
Unused tax losses and other tax credits:	10,720	3,701
Tax losses	10,720	3,701
Tax credits	0	0
Other	0	0

Total temporary differences relating to deferred tax assets:	29,918	23,841
Total temporary differences relating to deferred tax liabilities:	18,723	14,328
Deferred tax balance at the end of the period	11,195	9,513
Change in deferred tax, including:	2,512	1,036
- recognised in income	2,500	1,039
- recognised in equity	12	-3

Deferred tax recognised in equity is a result of calculating tax on liabilities under employee benefits presented in comprehensive income.

Deferred tax assets and liabilities

	01-01-2017	Created	Used	30-06-2017
Deferred tax assets	22,907	5,312	0	28,219
Deferred tax liability	14,224	2,800	0	17,024
Balance of assets and liabilities	8,683			11,195

Deferred tax is presented by the Group companies according to its netted balance (IAS 12).

29. Property, plant and equipment

(PLN '000)

Property, plant and equipment		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Gross value	1 January 2017	0	26,124	47,520	51,151	2,151	126,946	518	2,967	130,431
Additions – merger of companies		0	0	0	0	0	0	0	0	0
Additions		0	0	113	15,949	122	16,184	1,678	0	17,862
Impairment		0	0	0	0	0	0	0	0	0
Transfer to non-current assets		0	0	0	0	0	0	489	2,967	3,456
Liquidations		0	0	946	587	19	1,552	0	0	1,552
Balance at	30 June 2017	0	26,124	46,687	66,513	2,254	141,578	1,707	0	143,285

Depreciation		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at	1 January 2017	0	6,817	19,126	19,343	1,729	47,015	0	0	47,015
Additions – merger of companies		0	0	0	0	0	0	0	0	0

Elimination on disposal of assets	0	0	697	505	16	1,218	0	0	1,218
Depreciation expense	0	477	1,561	2,201	73	4,312	0	0	4,312
Balance at 30 June 2017	0	7,294	19,990	21,039	1,786	50,109	0	0	50,109

Carrying amount

Balance at 1 January 2017	0	19,307	28,394	31,808	422	79,931	518	2,967	83,416
Balance at 30 June 2017	0	18,830	26,697	45,474	468	91,469	1,707	0	93,176

The Group did not recognise any impairment losses in the reporting period.

30. Investment property

(PLN)

Gross value	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	126	4,251	2,371	0	0	0	6,748
Additions	0	0	0	0	0	0	0
Adjustment	0	0	0	0	0	0	0
Impairment	0	0	-1,000	0	0	0	-1,000
Liquidations	0	0	0	0	0	0	0
Balance at 30 June 2017	126	4,251	3,371	0	0	0	7,748

Depreciation		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	1 January 2017	0	1,324	1,707	0	0	0	3,031
	Elimination on disposal of assets	0	0	0	0	0	0	0
	Depreciation expense	0	82	87	0	0	0	169
Balance at	30 June 2017	0	1,406	1,794	0	0	0	3,200
Carrying amount								
Balance at	1 January 2017	126	2,927	664	0	0	0	3,717
Balance at	30 June 2017	126	2,845	1,577	0	0	0	4,548

As at 30 June 2017, investment property includes the real property in Kościelisko (plots no. 2001 and 2491). The investment property includes land with buildings erected thereon and leasehold estate.

In the first half of 2017, the Group released the impairment loss of PLN 1,000 thousand due to change in estimates. The total value of investment property impairment loss is PLN 2,970 thousand.

31. Goodwill

The goodwill of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A is a result of the acquisition of 85% of PRK shares and the control gained in 2010. The acquisition of PRK was settled on the basis of the data contained in the separate financial statements of PRK as at 31 December 2009 and was recognised for the first time in the Financial Statements of the Capital Group in 2010.

The goodwill of BPK Poznań is a result of the purchase of 830 shares in BPK Poznań and the control gained on 2012.

The acquisition of BPK Poznań was settled on the basis of the data contained in the separate financial statements of BPK Poznań as at 31 March 2012 and was recognised for the first time in the Financial Statements of the Capital Group in 2012.

	(PLN '000)	
	As at	As at
	30-06-2017	31-12-2016
At cost		
Goodwill of PRK	31,172	31,172
Goodwill of BPK Poznań	1,474	1,474
Impairment losses (BPK Poznań)	-1,474	-1,474
Balance at the end of the reporting period	31,172	31,172

At the end of the reporting period, there was no need to recognise any impairment of goodwill of PRK. A test for the impairment of goodwill will be carried out at the end of the year.

32. Other financial assets

	(PLN '000)			
	Current		Non-current	
	As at	As at	As at	As at
	30-06-2017	31-12-2016	30-06-2017	31-12-2016
Financial debt instruments	5,577	54,935	0	0
Other	0	0	0	0
Total	5,577	54,935	0	0

Financial debt instruments include bonds maturing by August 2017. Decrease by PLN 49,358 thousand results from the sale of corporate bonds of another entity.

33. Inventories

	(PLN '000)	
	As at	As at
	30-06-2017	31-12-2016
Materials	40,364	10,330
Work in progress	1,261	759
Finished goods	461	198
Prepaid supply	0	0
Total	42,086	11,287

An increase in inventories reflects the Group's intention to protect itself against limited availability (or significant price increase) of these products in times of intensified performance of railway contracts expected in 2018-2020.

34. Trade and other receivables

	(PLN '000)	
	As at	As at
	30-06-2017	31-12-2016
Trade receivables	58,418	70,476
Write-downs of trade receivables	-13,822	-15,229
Receivables from the state budget other than corporate income tax	10,490	6,332
Receivables under contracts (measurement)	46,912	22,211
Advance payments	2,103	2,563
Other receivables	4,471	256
Total trade and other receivables	108,572	86,609

An increase in other receivables is a result the bank's security relating to the financing agreement of PLN 4,000 thousand.

Concentration of (gross) trade receivables that exceed 10% of total receivables:

	(PLN '000)	
	As at	
	30-06-2017	
Counterparty A	17,294	
Counterparty B	17,068	
	34,362	

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated and by cooperation with financial institutions. Therefore, the Management Board of the Company believe there is no need to create additional allowances.

35. Loans and bank credits and other sources of finance

	(PLN '000)	
	As at	As at
	30-06-2017	31-12-2016
Long-term	15,263	8,892
Bank credits	0	0
Loans received	0	0
Finance lease liabilities	15,263	8,892
Short-term	18,202	14,194
Bank credits	9,408	8,153
Loans received	246	243
Finance lease liabilities	8,548	5,798

Total	33,465	23,086
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In the second quarter of 2017, the Group entered into a lease contract for wagons (for ballast cleaning) of PLN 14,600 thousand.

36. Provisions

Change in provisions

							(PLN '000)
Provisions	01-01-2017	Created	Used	Released	Reclassified	30-06-2017	Item
Long-term provisions:	9,509	623	57	1,020	826	8,229	
Provisions for employee benefits	1,864	65	0	2	0	1,927	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,645	558	57	1,018	826	6,302	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	17,056	10,095	7,619	3,746	-826	16,612	
Provisions for employee benefits	12,506	5,987	7,492	1,287	0	9,714	Liabilities under employee benefits (short-term)
Provisions for warranty claims	3,233	48	126	1,912	-826	2,069	Short-term provisions
Provisions for loss on contracts	46	4,005	0	536	-1,007	4,522	Short-term provisions
Other provisions	1,271	55	1	11	1,007	307	Short-term provisions
Total provisions:	26,565	10,718	7,676	4,766	0	24,841	

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Group depending on the amount of revenues. The amount of provisions may decrease or increase on the basis of inspections of construction works carried out in subsequent years of warranty.

Provisions for employee benefits include the provisions for leaves, bonuses, overtime work as well as liabilities under salaries and social security premiums. The provisions for employee benefits decreased in the reporting period mainly as a result of payment of contract bonuses from previous years.

A provision for loss on contracts is created if the budgeted expenses are higher than the total revenue under a contract. Provisions for loss on contracts increased following the update of contract budgets.

37. Retentions on construction contracts

			(PLN '000)
		As at	As at
		30-06-2017	31-12-2016
Retained by customers – to be repaid after 12 months		11,731	7,334

Retained by customers – to be repaid within 12 months	417	2,177
Total retentions on construction contracts retained by customers	12,148	9,511
Retained for suppliers – to be repaid after 12 months	5,847	6,792
Retained for suppliers – to be repaid within 12 months	5,978	9,185
Total retentions on construction contracts retained for suppliers	11,825	15,977

38. Trade and other payables

	(PLN '000)	
	As at 30-06-2017	As at 31-12-2016
Trade payables	34,894	58,089
Liabilities to the state budget other than corporate income tax	1,223	1,082
Accruals	21,430	21,231
Liabilities under contracts (measurement)	1,680	1,586
Other payables	214	106
Advance payments	14,036	0
Total trade and other payables	73,477	82,094

Accruals include, in particular, provisions for the expenses associated with subcontractors and provisions for contract settlement risks.

Advance payments include prepayments received by the Group under contracts entered into with PKP PLK. Under the said contracts, advance payments were made to enable the performance of construction contracts.

In 2017, the Group shortened the dates of payment for purchased materials to optimize margins.

39. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the six months ended 30 June 2017 or the six months ended 30 June 2016.

40. Investments in non-current assets

The total capital expenditure incurred by the Group in the first half of 2017 amounted to PLN 17,396 thousand.

The capital expenditure and investment financing are detailed in the table below.

(PLN '000)				
Investments in non-current assets				
Item:	Own funds	Leases	Credits	Total
Intangible assets, including:	11	0	0	11
- leasehold land	0	0	0	0
Property, plant and equipment, including:	1,523	14,661	0	16,184
- buildings and structures	0	0	0	0
- plant and equipment	114	0	0	114
- vehicles	1,287	14,661	0	15,948
- other	122	0	0	122
Non-current assets under construction	1,188	0	0	1,188

Intangible assets under construction	13	0	0	13
Investment property	0	0	0	0
Equity investments	0	0	0	0
Total domestic investments	2,735	14,661	0	17,396

Major investments in property, plant and equipment made by the Group in the first half of 2017 included:

- Purchase of ten TMS-40.01 wagons (for ballast cleaning) worth PLN 14,600 thousand (lease).
- Complete overhauls of machines and vehicles in the total amount of PLN 330 thousand.
- Purchase of cars for PLN 1,006 thousand.
- Purchase of track gauge for PLN 57 thousand.
- Purchase of SMG-27L-S generating set for PLN 30 thousand.
- Expenditures on railroad crane of PLN 154 thousand.
- Expenditures on PV 15RPR pile driver of PLN 965 thousand.

The Group's investments in intangible assets in H1 2017 concerned the purchase of licence and software.

The amount recognized in the statement of cash flows is PLN 14,796 thousand. The difference results, *inter alia*, from actual payments made after the end of the reporting period and leaseback.

In the second quarter of 2017, the Group entered into a lease contract for wagons (for ballast cleaning) of PLN 14,600 thousand. At first, the transaction was financed by own resources.

At the end of the reporting period, ZUE had the following pending investments in property, plant and equipment:

- Krupp 75t railroad crane. Expected investment completion date: August 2017.
- Two mail cars series PDN type 304Ca. Expected investment completion date: August 2017.
- PV 15 RPR pile driver. Expected investment completion date: September 2017.

41. Segment reporting

The Group's reporting is based on operating segments. Given the development of design and sales activities, the Management Board of ZUE has identified the three aggregate operating segments to enable a proper assessment of the type and financial consequences of the Group's operations as required by the IFRS 8:

- Construction;
- Design; and
- Sales.

These operating segments jointly meet the following criteria:

- Their aggregation is consistent with the objectives and principles of the IFRS 8;
- They have similar economic characteristics;
- They are similar in the following areas: the nature of the products and services, the nature of the production process, the class and type of clients and the methods used to distribute products and services.

Construction activities conducted by ZUE include the construction and comprehensive modernisation of city transport systems, the construction and comprehensive modernisation of railway lines as well as power engineering and power electronics services.

Design activities related to urban and railway transport systems complement the construction activities. This segment includes the contracts performed by BPK Poznań.

Construction activities are also supplemented by the sale of materials required to build and repair tracks. This segment includes the activities conducted by Railway gft.

The accounting policies applied to the segments are the same as the principles presented in the description of significant accounting policies. The Group settles sales and transfers between the segments based on current market prices like with transactions with third parties.

Operating segments' results for the first half of 2017:

(PLN '000)

	Construction	Sales	Design	Exclusions	Total
Revenue	100,095	27,564	5,726	-25,542	107,843
including:					
Revenue from external customers	99,870	3,895	4,269	-191	107,843
Inter-segment revenues	225	23,669	1,457	-25,351	0
Gross profit	-6,101	278	248	-244	-5,819
Financial income / expenses	-1,606	-349	-18	0	-1,973
Interest received	102	0	0	0	102
Interest paid	-219	-134	-2	0	-355
Pre-tax profit	-15,438	-1,321	-492	-247	-17,498
Corporate income tax	-2,563	25	65	-47	-2,520
Net profit	-12,875	-1,346	-557	-200	-14,978
Depreciation and amortisation	4,721	21	46	-6	4,782
Property, plant and equipment	90,115	0	164	2,897	93,176
Non-current assets	160,916	269	783	-823	161,145
Total assets	327,957	12,250	11,319	-6,819	344,707

Operating segments' results for the first half of 2016:

	Construction	Sales	Design	Exclusions	Total
Revenue	111,902	35,707	4,311	-24,146	127,774
including:					
Revenue from external customers	111,487	12,347	3,889	50	127,774
Inter-segment revenues	415	23,360	421	-24,196	0
Gross profit	4,395	596	759	-203	5,547
Financial income / expenses	1,376	-254	-8	0	1,114
Interest received	948	0	1	0	949
Interest paid	-175	-88	-8	0	-271
Pre-tax profit	-700	-676	-41	-79	-1,497
Corporate income tax	-4	71	12	-16	63

Net profit	-696	-747	-53	-64	-1,560
Depreciation and amortisation	4,510	101	52	85	4,747
Property, plant and equipment	76,278	18	144	3,043	79,483
Non-current assets	140,699	384	1,275	-1,105	141,252
Total assets	365,424	21,908	6,712	-15,532	378,513

42. Transactions with related entities

The following trade transactions were entered into between the related entities during the reporting period:

(PLN '000)

	Receivables		Payables	
	As at		As at	
	30-06-2017	31-12-2016	30-06-2017	31-12-2016
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

	Revenue		Purchases	
	Period ended		Period ended	
	30-06-2017	30-06-2016	30-06-2017	30-06-2016
RTI	2	2	0	0
RTI Germany	0	0	0	113
Wiesław Nowak	0	0	468	0
Total	2	2	468	113

	Advanced loans		Financial income (interest)	
	As at		Period ended	
	30-06-2017	31-12-2016	30-06-2017	30-06-2016
RTI	5	0	0	0
RTI Germany	56	58	0	0
Wiesław Nowak	0	0	0	0
Total	61	58	0	0

	Received loans		Financial expenses (interest)	
	As at		Period ended	
	30-06-2017	31-12-2016	30-06-2017	30-06-2016
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

In the reporting period, transactions were entered into between ZUE and subsidiaries, and the related entities on arm's length terms.

In the first half of 2017, RTI leased business establishments from ZUE on the basis of the lease of 31 December 2015.

On 2 January 2017, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 1 thousand to be repaid by 31 March 2017. The loan was advanced on 5 January 2017. The loan plus interest was repaid on 27 March 2017.

On 30 March 2017, ZUE and Mr. Wiesław Nowak entered into an agreement whereby a car was purchased by ZUE. Transaction value: PLN 468 thousand. The payment was made on 3 April 2017.

On 26 May 2017, ZUE and RTI signed a loan agreement whereby RTI was granted a special-purpose loan of PLN 5 thousand to be repaid by 20 December 2018. The loan was advanced on 26 May 2017.

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

44. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	As at 30-06-2017	As at 31-12-2016
Bonds	24,259	28,080
Bills of exchange	5,805	4,120
Guarantees	55	58
Mortgages	0	0
Total	30,119	32,258

Contingent assets in the form of bonds and guarantees include the bonds provided by banks and insurance companies for the benefit of the Group to secure the Group's claims relating to subcontracted construction services and the supply of materials.

Contingent liabilities

	(PLN '000)	
	As at 30-06-2017	As at 31-12-2016
Bonds	292,128	203,078
Guarantees	24,112	15,709
Bills of exchange	142,338	128,319
Mortgages	54,259	201,018
Pledges	4,000	4,000
Total	516,837	552,124

Contingent liabilities in the form of bonds and guarantees include, in particular, bid bonds, performance bonds, defects liability bonds and advance payment bonds provided by insurance companies and banks to the Group's counterparties to secure their claims against the Group, mainly under construction contracts and supply agreements. Insurance companies and banks have recourse against the Group.

At 30 June 2017, the registered pledge of PLN 4m is a security for the Agreement no. 07/067/15/Z/OB of 28 August 2015 between Railway gft Polska and mBank S.A.

The liabilities to banks and strategic clients are secured by bills of exchange. Mortgages are additional security for agreements with banks. Following the conclusion on 10 April 2017 of an annex to the financing agreement of 10 December 2015 between ZUE and BGŻ BNP Paribas S.A. whereby the security in the form of mortgage was replaced with a deposit, an application was submitted to the District Court of Zakopane on 21 April 2017 to remove the capped mortgage of PLN 150m. The mortgage was removed on 30 May 2017.

Approval of the condensed consolidated financial statements

These condensed consolidated financial statements for the six months ended 30 June 2017 were approved for publication by the Management Board of ZUE on 21 August 2017.

Statement by the Management Board of ZUE

Preparation of half-yearly condensed consolidated financial statements

On the basis of the Regulation of the Minister of Finance of 19 February 2009 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 Management Board of ZUE state that according to their best knowledge, these half-yearly condensed consolidated financial statements and the comparative information have been prepared in accordance with applicable accounting principles binding on the Group and give a true and fair view of the economic and financial position of the Group and its financial performance. The Management Board Report on the Group's 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.

Appointment of entity authorised to review half-yearly condensed consolidated financial statements

The Management Board of ZUE state that the entity authorised to audit financial statements involved in 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.

Publication of separate half-yearly condensed separate financial statements

Pursuant to § 83.3 of the Regulation of the Minister of Finance of 19 February 2009, ZUE does not publish any separate half-yearly separate report. The half-yearly condensed separate financial statements of ZUE and Auditor's Report on the review of the financial statements supplement the half-yearly consolidated report of the Group.

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

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

Cracow, 21 August 2017



ZUE S.A.

**SEPARATE HALF-YEARLY REPORT
FOR 6 MONTHS ENDED 30 JUNE 2017**

Cracow, 21 August 2017

III. SELECTED FINANCIAL DATA OF ZUE

Main items of the separate statement of financial position translated into EUR:

	As at 30-06-2017		As at 31-12-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	160,916	38,073	143,469	32,430
Current assets	167,041	39,522	200,863	45,403
Total assets	327,957	77,595	344,332	77,833
Equity	196,698	46,539	209,623	47,383
Non-current liabilities	28,421	6,724	24,518	5,542
Current liabilities	102,838	24,332	110,191	24,908
Total equity and liabilities	327,957	77,595	344,332	77,833

Main items of the separate statement of comprehensive income translated into EUR:

	Period ended 30-06-2017		Period ended 30-06-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	100,095	23,566	111,902	25,545
Cost of sales	106,196	25,003	107,507	24,542
Gross profit (loss) on sales	-6,101	-1,437	4,395	1,003
Profit (loss) on operating activities	-13,832	-3,257	-2,075	-474
Gross profit (loss)	-15,438	-3,635	-700	-160
Net profit (loss) from continuing operations	-12,875	-3,031	-696	-159
Total comprehensive income	-12,925	-3,043	-683	-156

Main items of the separate statement of cash flows translated into EUR:

	Period ended 30-06-2017		Period ended 30-06-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-79,803	-18,789	-40,114	-9,157
Cash flows from investing activities	35,306	8,312	-1,514	-346
Cash flows from financing activities	8,876	2,090	-10,758	-2,456
Total net cash flows	-35,621	-8,387	-52,386	-11,959
Cash at the beginning of the period	61,207	13,835	169,795	39,844
Cash at the end of the period	24,863	5,883	118,162	26,700

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 30-06-2017	Exchange rate on 31-12-2016	Exchange rate on 30-06-2016
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2265	4.4240	n/a
Items of statement of profit or loss and statement of cash flows	Arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month of the period	4.2474	4.3757	4.3805
"Cash at the beginning of the period" and "Cash at the end of the period" items in the statement of cash flows	Mid exchange rate prevailing at the end of the reporting period	4.2265	4.4240	4.4255

IV. CONDENSED SEPARATE FINANCIAL STATEMENTS OF ZUE

Separate statement of comprehensive income

(PLN '000)

Continuing operations	Note no.	Period ended	Period ended
		30-06-2017	30-06-2016
Revenue	5	100,095	111,902
Cost of sales		106,196	107,507
Gross profit (loss)		-6,101	4,395
General and administrative expenses		8,343	8,766
Other operating income	6	2,558	2,855
Other operating expenses	7	1,946	559
Profit (loss) on operating activities		-13,832	-2,075
Financial income	8	891	1,858
Financial expenses	9	2,497	483
Pre-tax profit (loss)		-15,438	-700
Corporate income tax	10	-2,563	-4
Net profit (loss) from continuing operations		-12,875	-696

Net profit (loss)	-12,875	-696
Other net comprehensive income		
Items that will not be reclassified subsequently to profit or loss:	-50	13
Actuarial gains (losses) concerning specific benefit schemes	-50	13
Other total net comprehensive income	-50	13
Total comprehensive income	-12,925	-683
Number of shares	23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)	-0.56	-0.03
Total comprehensive income (loss) per share (PLN)	-0.56	-0.03

Separate statement of financial position

		(PLN '000)	
		As at	As at
	Note no.	30-06-2017	31-12-2016
ASSETS			
Non-current assets			
Property, plant and equipment	11	90,115	80,335
Investment property	12	8,116	7,349
Intangible assets		8,845	9,119
Goodwill	13	31,172	31,172
Investments in subordinates		210	210
Advance payments for investments in subordinates		0	0
Long-term receivables		0	0
Retentions on construction contracts	19	11,433	6,819
Deferred tax assets	10	11,020	8,465
Advanced loans		5	0
Other assets		0	0
Total non-current assets		160,916	143,469
Current assets			
Inventories	15	37,667	6,196
Trade and other receivables	16	97,765	74,937
Retentions on construction contracts	19	112	2,101
Current tax assets	10	0	0
Other financial assets	14	5,577	54,935
Other assets		776	1,198
Advanced loans		281	289
Cash and cash equivalents		24,863	61,207

Total current assets	167,041	200,863
Total assets	327,957	344,332

	Note no.	As at 30-06-2017	As at 31-12-2016
EQUITY AND LIABILITIES			
Equity			
Share capital		5,758	5,758
Share premium account		93,837	93,837
Treasury shares		-2,690	-2,690
Retained earnings		99,793	112,718
Total equity		196,698	209,623
Non-current liabilities			
Long-term loans and bank credits and other financing sources	17	15,228	8,875
Retentions on construction contracts	19	5,725	6,717
Other financial liabilities		0	0
Liabilities under employee benefits		781	740
Deferred tax liabilities	10	0	0
Long-term provisions	18	6,197	7,556
Deferred income		0	0
Other liabilities		490	630
Total non-current liabilities		28,421	24,518
Current liabilities			
Trade and other payables	20	67,676	74,740
Retentions on construction contracts	19	5,886	9,117
Short-term loans and bank credits and other financing sources	17	8,508	5,765
Other financial liabilities		36	37
Liabilities under employee benefits		14,477	16,562
Current tax liabilities	10	0	0
Short-term provisions	18	6,255	3,970
Total current liabilities		102,838	110,191
Total liabilities		131,259	134,709
Total equity and liabilities		327,957	344,332

Separate statement of changes in equity

						(PLN '000)
		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	1 January 2017	5,758	93,837	-2,690	112,718	209,623
Dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Buy-back of shares		0	0	0	0	0
Profit (loss)		0	0	0	-12,875	-12,875
Other net comprehensive income		0	0	0	-50	-50
Balance at	30 June 2017	5,758	93,837	-2,690	99,793	196,698

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	1 January 2016	5,758	93,837	-2,690	118,706	215,611
Dividend		0	0	0	-7,513	-7,513
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Buy-back of shares		0	0	0	0	0
Profit (loss)		0	0	0	-696	-696
Other net comprehensive income		0	0	0	13	13
Balance at	30 June 2016	5,758	93,837	-2,690	110,510	207,415

Separate statement of cash flows

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-15,438	-700
Adjustments for:		
Depreciation and amortisation	4,721	4,510
Foreign exchange gains / (losses)	723	-753
Interest and share in profit (dividends)	92	-645
(Gain) / loss on disposal of investments	-1,132	17
Accrued expenses under commission on credits	0	0
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit (loss) before changes in working capital	-11,034	2,429
Change in receivables and retentions on construction contracts	-25,453	-9,402
Change in inventories	-31,470	-2,687
Change in provisions and liabilities under employee benefits	-1,116	-9,889
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	-11,171	-21,460
Change in accrued expenses	421	218
Change in funds of limited availability	0	0
Other adjustments	0	0
Income tax paid / tax refund	20	677
NET CASH FROM OPERATING ACTIVITIES	-79,803	-40,114
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	465	111
Purchase of property, plant and equipment and intangible assets	-14,613	-2,634
Investments in real property and intangible assets	0	0
Sale / (purchase) of financial assets in other entities	0	0
Sale / (purchase) of financial assets in subsidiaries	0	0
Purchase of financial assets available for sale	0	0
Cash payments to purchase debt instruments of other entities	-166,943	0
Cash from repurchase of debt instruments of other entities	216,028	0
Advanced loans	-9	-13
Repayment of granted loans	4	74
Dividends received	0	0
Interest received	102	948
Gain/loss on repurchase of debt instruments	272	0
Settlement of financial instruments – expenses	0	0
Other cash provided by/(used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	35,306	-1,514
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	14,600	0
Repayment of loans and bank credits	0	0
Decrease in finance lease liabilities	-5,504	-3,070

Interest paid	-219	-175
Other cash provided by / (used in) financing activities – dividends	-1	-7,513
Net cash from issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	8,876	-10,758
TOTAL NET CASH FLOWS	-35,621	-52,386
Net foreign exchange gains / (losses)	-723	753
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	61,207	169,795
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	24,863	118,162

Notes to Condensed Separate Financial Statements of ZUE

1. General information

Details of the Company

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.

Composition of the Company's supervisory and management bodies at the date of approval of these financial statements:

Management Board:

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

Supervisory Board:

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

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).

Functional and reporting currency

These financial statements have been prepared in Polish zloty (PLN). Polish zloty is the Company's functional and reporting currency. The data in the financial statements has been presented in thousands of Polish zloty, unless specific situations require greater detail.

2. Use of International Financial Reporting Standards

Statement of compliance

The condensed separate financial statements have been drawn up in accordance with IAS 34 as at 30 June 2017 as endorsed by the European Union (EU).

The separate financial statements for the first six months ended 30 June 2017 have been prepared according to 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.

Standards and interpretations used for the first time in the reporting period

No amendments to the existing standards published by the International Accounting Standards Board (IASB) and approved of by the European Union, which would come into force for the first time in the separate financial statements for 2017, occurred when approving these financial statements.

Standards and interpretations published by the EU but not yet effective

When approving these financial statements, the following new standards and amendments to the standards were published by the International Accounting Standards Board (IASB) and approved of by the EU but did not come into force:

- **IFRS 9 "Financial Instruments"** - approved of in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective Date of IFRS 15" - approved of in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

Standards and interpretations adopted by the IASB but not yet approved of by the EU

The International Financial Reporting Standards (IFRS) as endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) save for the following new standards and amendments to the standards not yet approved for use in the EU at this report preparation date:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided not to approve this standard for use in the EU until the final version of the IFRS 14 is issued;
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);

- **Amendments to IFRS 4 “Insurance Contracts”** – Use of IFRS 9 “Financial Instruments” and IFRS 4 “Insurance Instruments” (effective for annual periods beginning on or after 1 January 2018 or upon the use of IFRS 9 “Financial Instruments” for the first time);
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and subsequent amendments (effective date was postponed for indefinite period);
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** – Clarifications to IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 7 “Statement of Cash Flows”** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 “Income Taxes”** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards “Improvements to IFRSs (2014-2016 Cycle)”** – made as part of annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) aimed mainly at the resolution of inconsistencies and specification of vocabulary (amendments to IFRS 12 effective for annual periods beginning on or after 1 January 2017 and amendments to IFRS MSSF 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018);
- **International Financial Reporting Interpretations Committee’s (IFRIC) Interpretation 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021).
- **International Financial Reporting Interpretations Committee’s (IFRIC) 23 Uncertainty over Income Tax Treatments** (effective for annual periods beginning on or after 1 January 2019).

The influence of these amendments on future separate financial statements of the Company is being analysed.

3. Important accounting principles

Going concern

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

Preparation basis

The Company has prepared these half-yearly separate financial statements according to the regulations set out in IAS 34 “Interim Financial Reporting” and used the same principles for present and comparative period.

Comparability of financial information

No changes in the presentation of financial information have been made in the comparative periods.

Applied accounting principles

These half-yearly separate financial statements for the six months ended 30 June 2017 have been prepared according to the same accounting principles and measurement methods as those used in the last annual financial statements of the Company as at 31 December 2016. The financial statements for the financial year

ended 31 December 2016 contain a detailed description of accounting principles used by the Company.

These half-yearly separate financial statements do not include all the information and disclosures required in the case of annual financial statements and they should be read together with the annual financial statements of ZUE.

4. Revisions to estimates

The preparation of financial statements in conformity with the IFRS requires the Management Board of ZUE to make judgments, estimates and assumptions that affect the adopted policies and reported assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods if the revision affects both current and future periods.

Note no. 18 presents the changes in provisions.

5. Revenue

(PLN '000)

	Period ended 30-06-2017	Period ended 30-06-2016
Revenue from the sale of goods and raw materials	420	13,442
Revenue from the rendering of services	2,088	2,209
Revenue from construction contracts	97,587	96,251
Total	100,095	111,902

The Company's revenue in the period from 1 January 2017 - 30 June 2017 amounted to PLN 100,095 thousand – down by 11% when compared with revenue in the analogous period of 2016.

In the first half of 2017, both revenue and financial results were influenced by the Management Board's organisation of new contracts won under the present EU perspective. The said contracts, including a large number of "design-build" projects, did not generate significant revenues.

6. Other operating income

(PLN '000)

	Period ended 30-06-2017	Period ended 30-06-2016
Gain on disposal of assets:	167	0
Gain on disposal of non-current assets	167	0
Other operating income:	2,391	2,855
Re-invoicing of bonds and policies	636	175
Received damages	108	68
Release of write-downs of receivables	274	894
Refund of costs of court proceedings	48	34
Release of provisions for court cases	0	1,500
Release of allowances for inventories	13	148
Release of allowances for investment property	1,000	0

Other	312	36
Total	2,558	2,855

7. Other operating expenses

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Loss on disposal of assets:	0	17
Loss on disposal of non-current assets	0	17
Other	1,946	542
Donations	14	6
Paid damages	99	29
Costs of litigations	3	75
Costs of performance bonds	636	175
Revaluation of inventories	0	0
Write-downs of receivables	1,152	235
Remission of debt	0	3
Allowance for investment property	0	0
Other	42	19
Total	1,946	559

In the first half of 2017, the Company recognised the write-downs of PLN 1,152 thousand including the write-down recognised in connection with an invoice for additional works issued by PKP PLK. The invoice is being negotiated.

8. Financial income

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Interest income:	417	917
Interest on bank deposits	102	820
Interest on loans	5	0
Interest on receivables	310	97

Foreign exchange gains	0	822
Gain on disposal of investment	0	0
Dividend income	0	0
Other financial income:	474	119
Discount of long-term items	0	17
Realisation of financial instruments	272	0
Other	202	102
Total	891	1,858

9. Financial expenses

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Interest expenses:	221	182
Interest on bank overdrafts and credits	0	0
Interest on finance lease liabilities	219	175
Interest on loan	0	0
Interest on trade and other payables	2	7
Other financial expenses:	2,276	301
Foreign exchange losses	754	0
Discount of long-term items	1,483	290
Realisation of financial instruments	0	0
Allowance for investments in subordinates	0	0
Other	39	11
Total	2,497	483

The increase in financial expenses was mainly influenced by a discount of long-term money deposits paid in the first half of 2017.

10. Corporate income tax

Corporate income tax recognised in statement of comprehensive income

	(PLN'000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Current income tax	-20	1,090
Deferred tax	-2,543	-1,094
Total tax expense/income	-2,563	-4

The tax currently payable is calculated pursuant to applicable tax laws. According to these laws, taxable profit (loss) differs from accounting net profit (loss) because it excludes items of income or expense that are not taxable or deductible and items of income or expense that are never taxable. The Company's tax liability is calculated using tax rates applicable during the fiscal year in question.

The Company is subject to general regulations governing corporate income tax. The Company's entities neither form a tax capital group nor operate in a Special Economic Zone. Tax year and financial year coincide with a calendar year.

Current income tax

	(PLN '000)	
	Period ended 30-06-2017	Period ended 30-06-2016
Gross profit (loss)	-15,438	-700
Difference between gross profit (loss) and income tax base:	596	-18,779
- differences between gross profit and taxable income resulting from costs that are not tax-deductible under tax regulations and revenue not classified as revenue under tax regulations and additional costs and revenue	596	-18,779
- other differences (including loss brought forward)	0	0
Income/loss	-14,842	-19,479
Income tax base	0	0
Income tax at the applicable rate of 19%	0	-133
Income tax paid/(refunded) on profit earned abroad	-20	978
Tax increases, waivers, exemptions, deductions and reductions	0	0
Adjustment of income tax from previous years	0	112
Current income tax	-20	1,090

Current tax assets and liabilities

	(PLN '000)	
	As at 30-06-2017	As at 31-12-2016
Current tax assets		
Tax refundable	0	0
Total	0	0

Current tax liabilities

Tax payable	0	0
Total	0	0

Deferred tax balance

	Period ended 30-06-2017	Period ended 30-06-2016
	(PLN '000)	
Deferred tax balance at the beginning of the period	8,465	8,233
Merger opening balance	0	0
Temporary differences relating to deferred tax assets:	17,354	19,229
Provisions for expenses and accruals	7,569	12,633
Discount of receivables	516	243
Liabilities under leases	90	339
Other, including allowances for receivables	2,780	2,788
Tax work in progress	6,399	3,226
Deferred tax reclassified from equity	0	0
Temporary differences relating to deferred tax liabilities:	17,024	13,605
Measurement of long-term contracts	7,532	3,833
Property, plant and equipment and intangible assets	9,191	9,386
Discount of payables	295	305
Other	6	81
Unused tax losses and other tax credits:	10,690	3,701
Tax losses	10,690	3,701
Tax credits	0	0
Other	0	0
Total temporary differences relating to deferred tax assets:	28,044	22,930

Total temporary differences relating to deferred tax liabilities:	17,024	13,605
Deferred tax balance at the end of the period	11,020	9,325
Change in deferred tax, including:	2,555	1,092
- recognised in income	2,543	1,095
- recognised in equity	12	-3

Deferred tax recognised in equity is a result of calculating tax on liabilities under employee benefits presented in comprehensive income.

Deferred tax assets and liabilities

	01-01-2017	Created	Used	(PLN '000) 30-06-2017
Deferred tax assets	21,512	6,532	0	28,044
Deferred tax liability	13,047	3,977	0	17,024
Balance of assets and liabilities	8,465			11,020

Deferred tax assets and liabilities are presented by the Company according to their netted balance (IAS 12).

11. Property, plant and equipment

	(PLN '000)								
Gross value	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2017	0	24,542	46,704	50,854	1,949	124,049	518	2,967	127,534
Additions	0	0	88	15,888	122	16,098	1,678	0	17,776
Transfer to non-current assets	0	0	0	0	0	0	489	2,967	3,456
Liquidations	0	0	946	587	19	1,552	0	0	1,552
Balance at 30 June 2017	0	24,542	45,846	66,155	2,052	138,595	1,707	0	140,302
Depreciation	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2017	0	6,920	18,207	20,509	1,565	47,199	0	0	47,199
Elimination on disposal of assets	0	0	697	505	16	1,218	0	0	1,218
Depreciation expense	0	396	1,544	2,195	71	4,206	0	0	4,206
Balance at 30 June 2017	0	7,316	19,054	22,199	1,620	50,187	0	0	50,187
Carrying amount									
Balance at 1 January 2017	0	17,622	28,497	30,345	384	76,850	518	2,967	80,335
Balance at 30 June 2017	0	17,226	26,792	43,956	432	88,408	1,707	0	90,115

The Company did not recognise any impairment losses in the reporting period.

12. Investment property

(PLN '000)

Gross value	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	126	5,228	5,186	0	0	0	10,540
Additions	0	0	0	0	0	0	0
Adjustment	0	0	0	0	0	0	0
Impairment	0	0	-1,000	0	0	0	-1,000
Liquidations	0	0	0	0	0	0	0
Balance at 30 June 2017	126	5,228	6,186	0	0	0	11,540
Depreciation	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	0	1,333	1,859	0	0	0	3,192
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	85	146	0	0	0	231
Balance at 30 June 2017	0	1,418	2,005	0	0	0	3,423
Carrying amount	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	126	3,895	3,327	0	0	0	7,349
Balance at 30 June 2017	126	3,810	4,181	0	0	0	8,116

As at 30 June 2017, investment property included the real property in Kościelisko (plots no. 2001 and 2491) and the real estate in Poznań (plot no. 2/1).

All of the Company's investment property is held either as freehold or leasehold interests. In 2017, the Company partially released the impairment loss of PLN 1,000 thousand due to change in estimates. The total value of investment property impairment loss is PLN 2,970 thousand.

13. Goodwill

	(PLN '000)	
	As at	As at
	30-06-2017	31-12-2016
At cost		
Goodwill of PRK	31,172	31,172
Balance at the end of the reporting period	31,172	31,172

ZUE merged with PRK on 20 December 2013. The control of PRK was gained by ZUE in 2010.

The goodwill of PLN 31,172 thousand and the leasehold value (difference in the fair value of the net assets at acquisition) of PLN 15,956 thousand (adjusted for a deferred tax asset) disclosed in the separate financial statements at the merger date were calculated as at the date the control of PRK was gained by ZUE in 2010 and follow from the consolidated financial statements. Changes in interests resulting from the merger were accounted for as changes in equity.

ZUE and PRK merged under joint control.

At the end of the reporting period, there was no need to recognise any impairment of goodwill of PRK. A test for the impairment of goodwill will be carried out at the end of the year.

14. Other financial assets

	(PLN '000)			
	Current		Non-current	
	As at	As at	As at	As at
	30-06-2017	31-12-2016	30-06-2017	31-12-2016
Financial debt instruments	5,577	54,935	0	0
Other	0	0	0	0
Total	5,577	54,935	0	0

Financial debt instruments include bonds maturing by August 2017. Decrease by PLN 49,358 thousand results from the sale of corporate bonds of another entity.

15. Inventories

	(PLN '000)	
	As at	As at
	30-06-2017	31-12-2016
Materials	35,945	5,239
Work in progress	1,261	759
Finished goods	461	198
Total	37,667	6,196

An increase in inventories reflects the Company's intention to protect itself against limited availability (or significant price increase) of these products in times of intensified performance of railway contracts expected in 2018-2020.

16. Trade and other receivables

	(PLN '000)	
	As at	As at
	30-06-2017	31-12-2016
Trade receivables	55,998	65,107
Write-downs of trade receivables	-13,465	-14,699
Receivables from the state budget other than corporate income tax	9,016	4,251
Receivables under contracts (measurement)	39,643	17,460
Advance payments	2,103	2,563
Other receivables	4,470	255
Total trade and other receivables	97,765	74,937

Concentration of (gross) trade receivables that exceed 10% of total receivables:

	(PLN '000)	
	As at	
	30-06-2017	
Counterparty A	17,294	
Counterparty B	17,068	
Total	34,362	

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated and by cooperation with financial institutions. Therefore, the Management Board of the Company believe there is no need to create additional allowances.

17. Loans and bank credits and other sources of finance

	(PLN '000)	
	As at	As at
	30-06-2017	31-12-2016
Long-term	15,228	8,875
Bank credits	0	0
Loans received	0	0
Finance lease liabilities	15,228	8,875
Short-term	8,508	5,765
Bank credits	0	0
Loans received	0	0
Finance lease liabilities	8,508	5,765

Total	23,736	14,640
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In the second quarter of 2017, the Company entered into a lease contract for wagons (for ballast cleaning) of PLN 14,600 thousand.

18. Provisions

Change in provisions

(PLN '000)

Provisions	01-01-2017	Created	Used	Released	Reclassified	30-06-2017	Item
Long-term provisions:	8,296	582	57	1,017	826	6,978	
Provisions for employee benefits	740	41	0	0	0	781	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,556	541	57	1,017	826	6,197	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	15,656	9,415	7,310	3,421	-826	15,166	
Provisions for employee benefits	11,686	5,431	7,184	1,022	0	8,911	Liabilities under employee benefits (short-term)
Provisions for warranty claims	3,221	4	126	1,912	-826	2,013	Short-term provisions
Provisions for loss on contracts	749	3,980	0	487	0	4,242	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	23,952	9,997	7,367	4,438	0	22,144	

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Group depending on the amount of revenues. The amount of provisions may decrease or increase on the basis of inspections of construction works carried out in subsequent years of warranty.

Provisions for employee benefits include the provisions for leaves, bonuses, overtime work as well as liabilities under salaries and social security premiums. The provisions for employee benefits decreased in the reporting period mainly as a result of payment of contract bonuses from previous years.

A provision for loss on contracts is created if the budgeted expenses are higher than the total revenue under a contract. Provisions for loss on contracts increased following the update of contract budgets.

19. Retentions on construction contracts

(PLN '000)

	As at 30-06-2017	As at 31-12-2016
Retained by customers – to be repaid after 12 months	11,433	6,819

Retained by customers – to be repaid within 12 months	112	2,101
Total retentions on construction contracts retained by customers	11,545	8,920
Retained for suppliers – to be repaid after 12 months	5,725	6,717
Retained for suppliers – to be repaid within 12 months	5,886	9,117
Total retentions on construction contracts retained for suppliers	11,611	15,834

20. Trade and other payables

	(PLN '000)	
	As at 30-06-2017	As at 31-12-2016
Trade payables	34,472	53,329
Liabilities to the state budget other than corporate income tax	864	837
Accruals	16,862	19,060
Liabilities under contracts (measurement)	1,291	1,413
Other payables	151	101
Advance payments	14,036	0
Total trade and other payables	67,676	74,740

Accruals include, in particular, provisions for the expenses associated with subcontractors and provisions for contract settlement risks.

Advance payments include prepayments received by the Group under contracts entered into with PKP PLK. Under the said contracts, advance payments were made to enable the performance of construction contracts.

In 2017, the Company shortened the dates of payment for purchased materials to optimize margins.

21. Notes on seasonal and cyclical nature of the Company's operations

The entire construction and assembly industry the Company operates in is marked by the seasonality of production and sales. The seasonal and cyclical nature of the Group's operations has been described in detail in section II.12 of the consolidated report entitled *Notes on seasonal and cyclical nature of the Group's operations*.

22. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the six months ended 30 June 2017 or the six months ended 30 June 2016.

23. Issue and redemption of debt and equity securities

During the reporting period, the Company did not issue or redeem any debt securities. The Company did not redeem any equity securities.

24. Dividend

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. The Supervisory Board of ZUE gave a favourable opinion on the abovementioned recommendations.

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.

25. Investments in non-current assets

The total capital expenditure incurred by the Company in the first half of 2017 amounted to PLN 17,294 thousand.

The capital expenditure and investment financing are detailed in the table below.

(PLN '000)

Investments in non-current assets				
Item:	Own funds	Leases	Credits	Total
Intangible assets, including:	8	0	0	8
- leasehold land	0	0	0	0
Property, plant and equipment, including:	1,498	14,600	0	16,098
- buildings and structures	0	0	0	0
- plant and equipment	89	0	0	89
- vehicles	1,287	14,600	0	15,887
- other	122	0	0	122
Non-current assets under construction	1,188	0	0	1,188
Investment property	0	0	0	0
Equity investments	0	0	0	0
Total investments	2,694	14,600	0	17,294

Major investments in property, plant and equipment made by the Company in the first half of 2017 included.:

- Purchase of ten TMS-40.01 wagons (for ballast cleaning) worth PLN 14,600 thousand (lease).
- Complete overhauls of machines and vehicles in the total amount of PLN 330 thousand.
- Purchase of cars for PLN 945 thousand.
- Purchase of track gauge for PLN 57 thousand.
- Purchase of SMG-27L-S generating set for PLN 30 thousand.
- Expenditures on railroad crane of PLN 154 thousand.
- Expenditures on PV 15RPR pile driver of PLN 965 thousand.

The Company's investments in intangible assets in H1 2017 concerned the purchase of licence and software.

The amount recognized in the statement of cash flows is PLN 14,613 thousand. The difference results, *inter alia*, from actual payments made after the end of the reporting period and leaseback.

In the second quarter of 2017, the Company entered into a lease contract for wagons (for ballast cleaning) of PLN 14,600 thousand. At first, the transaction was financed by own resources.

At the end of the reporting period, ZUE had the following pending investments in property, plant and equipment:

- Krupp 75t railroad crane. Expected investment completion date: August 2017.
- Two mail cars series PDN type 304Ca. Expected investment completion date: August 2017.
- PV 15 RPR pile driver. Expected investment completion date: September 2017.

26. Segment reporting

ZUE's reporting is based on operating segments. According to the aggregation criteria as set out in the IFRS 8.12,

the Company presents one aggregate operating segment, namely engineering construction and assembly services.

ZUE is organised and managed within the abovementioned segment. The Company applies a uniform accounting policy for all operating areas within the segment.

27. Transactions with related entities

The following trade transactions were entered into between the related entities during the reporting period:

(PLN '000)

	Receivables		Payables	
	As at		As at	
	30-06-2017	31-12-2016	30-06-2017	31-12-2016
Railway GFT	186	69	3,551	21,816
BPK Poznań	11	13	2,424	1,149
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	197	82	5,975	22,965

	Revenue		Purchases	
	Period ended		Period ended	
	30-06-2017	30-06-2016	30-06-2017	30-06-2016
Railway GFT	187	294	23,675	23,434
BPK Poznań	249	335	1,461	425
RTI	2	2	0	0
RTI Germany	0	0	0	113
Wiesław Nowak	0	0	468	0
Total	438	631	25,604	23,972

	Advanced loans		Financial income (interest)	
	As at		As at	
	30-06-2017	31-12-2016	30-06-2017	30-06-2016
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	0
RTI	5	0	0	0
RTI Germany	56	58	0	0
Wiesław Nowak	0	0	0	0
Total	61	58	0	0

	Received loans		Financial expenses (interest)	
	As at		As at	
	30-06-2017	31-12-2016	30-06-2017	30-06-2016
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	0
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

In the reporting period, transactions were entered into between ZUE and subsidiaries, and the related entities on arm's length terms.

In the reporting period, ZUE entered into the following sales transactions with the related entities:

- o Design services;
- o Lease of rooms, including utilities and phone services; and
- o Financial services.

In the reporting period, ZUE entered into the following purchase transactions with the related entities:

- o Purchase of materials required to build and repair tracks;
- o Design services;
- o Printing services;
- o Training services;
- o Equipment services;
- o Transport services;
- o Rail welding services;
- o Office equipment;
- o Vehicles (car); and
- o Transport services.

In the first half of 2017, RTI leased business establishments from ZUE on the basis of the lease of 31 December 2015.

In the first half of 2017, BPK Poznań leased rooms from ZUE on the basis of the lease of 1 October 2015 and the lease of 7 April 2010, as amended.

On 2 January 2017, ZUE and RTI Germany signed the loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 1 thousand to be repaid by 31 March 2017. The loan was advanced on 5 January 2017. The loan plus interest was repaid on 27 March 2017.

On 30 March 2017, ZUE and Mr. Wiesław Nowak entered into the sales agreement whereby a car was purchased by ZUE. Transaction value: PLN 468 thousand. The payment was made on 3 April 2017.

On 26 May 2017, ZUE and RTI signed the loan agreement whereby RTI was granted a special-purpose loan of PLN 5 thousand to be repaid by 20 December 2018. The loan was advanced on 26 May 2017.

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.

28. Court proceedings

At the date of preparation of this report, the Company is a party to the pending court proceedings concerning the Company's claims and liabilities of the total value of PLN 48,638 thousand; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 213 thousand and the total value of the proceedings concerning claims is PLN 48,425 thousand.

The pending court proceedings relate to the Company's operating activities.

Section II 43 of the consolidated financial statements contains a detailed description of the court proceedings.

29. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	As at 30-06-2017	As at 31-12-2016
Bonds	23,764	27,489
Bills of exchange	6,037	4,364
Guarantees	0	0
Mortgages	0	0
Total	29,801	31,853

Contingent assets in the form of bonds and guarantees include the bonds provided by banks and insurance companies for the benefit of the Company to secure the Company's claims relating to subcontracted construction services and the supply of materials.

Contingent liabilities

	(PLN)	
	As at 30-06-2017	As at 31-12-2016
Bonds	284,037	195,670
Guarantees	24,112	15,709
Bills of exchange	123,809	110,290
Mortgages	54,259	201,017
Pledges	0	0
Total	486,217	522,686

Contingent liabilities in the form of bonds include, in particular, bid bonds, performance bonds, defects liability bonds and advance payment bonds provided by insurance companies and banks to the Company's counterparties to secure their claims against the Company, mainly under construction contracts and sales agreements. Insurance companies and banks have recourse against the Company.

The contingent liabilities in the form of guarantees are the security for credits and bonds provided by banks and insurance companies to subsidiaries. The said credits and bonds are guaranteed by ZUE as the parent company.

The liabilities to banks and strategic clients are secured by bills of exchange. Mortgages are additional security for agreements with banks. Following the conclusion on 10 April 2017 of an annex to the financing agreement of 10 December 2015 between ZUE and BGŻ BNP Paribas S.A. whereby the security in the form of mortgage was replaced with a deposit, an application was submitted to the District Court of Zakopane on 21 April 2017 to remove the capped mortgage of PLN 150m. The mortgage was removed on 30 May 2017.

Approval of the condensed separate financial statements

These condensed separate financial statements for the six months ended 30 June 2017 were approved for publication by the Management Board of ZUE on 21 August 2017.

Statement by the Management Board of ZUE

Preparation of half-yearly condensed separate financial statements

On the basis of the Regulation of the Minister of Finance of 19 February 2009 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 Management Board of ZUE state that according to their best knowledge, these half-yearly condensed separate financial statements and the comparative information have been prepared in accordance with applicable accounting principles binding on the Company and give a true and fair view of the economic and financial position of the Company and its financial performance.

Appointment of entity authorised to review half-yearly condensed separate financial statements

The Management Board of ZUE state that the entity authorised to audit financial statements involved in the review of these half-yearly condensed separate 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 separate financial statements in accordance with applicable laws and professional standards.

Publication of separate half-yearly condensed separate financial statements

Pursuant to § 83.3 of the Regulation of the Minister of Finance of 19 February 2009, ZUE does not publish any separate half-yearly separate report. The half-yearly condensed separate financial statements of ZUE and Auditor's Report on the review of the financial statements supplement the half-yearly consolidated report of the Group.

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

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

Cracow, 21 August 2017