



---

**ZUE CAPITAL GROUP**

**MANAGEMENT BOARD REPORT**

**For the Period 1 January 2018 - 30 June 2018**

---

Cracow, 3 September 2018

Abbreviations and definitions:

ZUE, Company, Issuer	<p>ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,757,520.75 paid up in full.</p> <p>Parent company of the ZUE Capital Group.</p>
BPK Poznań	<p>Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 5,866,600 paid up in full.</p> <p>Subsidiary of ZUE.</p>
Railway gft	<p>Railway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI	<p>Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 225,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI Germany	<p>Railway Technology International Germany GmbH with registered office in Görlitz, Germany, entered into the German Register of Entrepreneurs (<i>Handelsregister B, HRB</i>) maintained by the District Court in Dresden (<i>Amtsgericht Dresden</i>) under entry number HRB 36690. Share capital of EUR 25,000 paid up in full.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
ZUE Group, Group, Capital Group	<p>ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.</p>
PLN	<p>Polish złoty.</p>
EUR	<p>Euro.</p>
Act	<p>Polish Companies Act (Journal of Laws 2017, item 1577).</p>

Share capital details of 30 June 2018.

## Contents

<b>INTRODUCTION</b> .....	<b>4</b>
<b>OPERATIONAL INFORMATION</b> .....	<b>4</b>
1. Organisation of the Group .....	4
1.1. Structure of the Group .....	4
1.2. Consolidated companies .....	5
1.3. Changes in the Group's structure and their consequences .....	5
2. Activities of the Capital Group .....	6
3. Sales markets .....	7
4. Backlog .....	8
5. Issuer's major achievements or failures .....	9
6. Strategic objectives .....	9
7. Market growth prospects .....	9
8. Factors believed by the Issuer to have an influence on the Group's development .....	9
9. Fundamental risks and threats .....	10
10. Major events in the reporting period .....	13
11. Major events after the end of the reporting period .....	15
12. Transactions with related entities .....	16
13. Bonds, guarantees, credit lines and loans .....	16
<b>CORPORATE INFORMATION</b> .....	<b>18</b>
14. Governing bodies of ZUE .....	18
15. Shares and share capital .....	18
16. ZUE shares held by members of the Issuer's management and supervisory bodies .....	19
17. Employment in the Group .....	21
18. Court and administrative proceedings .....	21
<b>FINANCIAL INFORMATION</b> .....	<b>23</b>
19. Discussion of major items of the statement of profit or loss .....	23
20. Discussion of major balance sheet items .....	24
21. Discussion of items of the statement of cash flows .....	25
22. Ratio analysis .....	26
22.1. Debt ratio .....	26
22.2. Liquidity ratios .....	26
22.3. Financing structure ratios .....	27
22.4. Profitability ratios .....	27
23. Discussion of results reported by segments .....	27
24. Statements by the Management Board of ZUE on financial projections .....	27
25. Unusual factors and events with significant influence on the Group's results .....	28
26. Other information significant for the assessment of the Issuer's position .....	28
<b>STATEMENT BY THE MANAGEMENT BOARD OF ZUE S.A.</b> .....	<b>29</b>
27. Statement of compliance .....	29

---

## INTRODUCTION

---

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

The Condensed Financial Statements of the Group and ZUE S.A. (ZUE, the Parent Company, the Issuer), respectively, the elements of the extended consolidated report for the first half of 2018, have been prepared in accordance with regulations set out in the IAS/IFRS including, in particular, IAS 34 "Interim Financial Reporting."

---

## OPERATIONAL INFORMATION

---

### 1. Organisation of the Group

#### 1.1. Structure of the Group

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

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

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

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

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

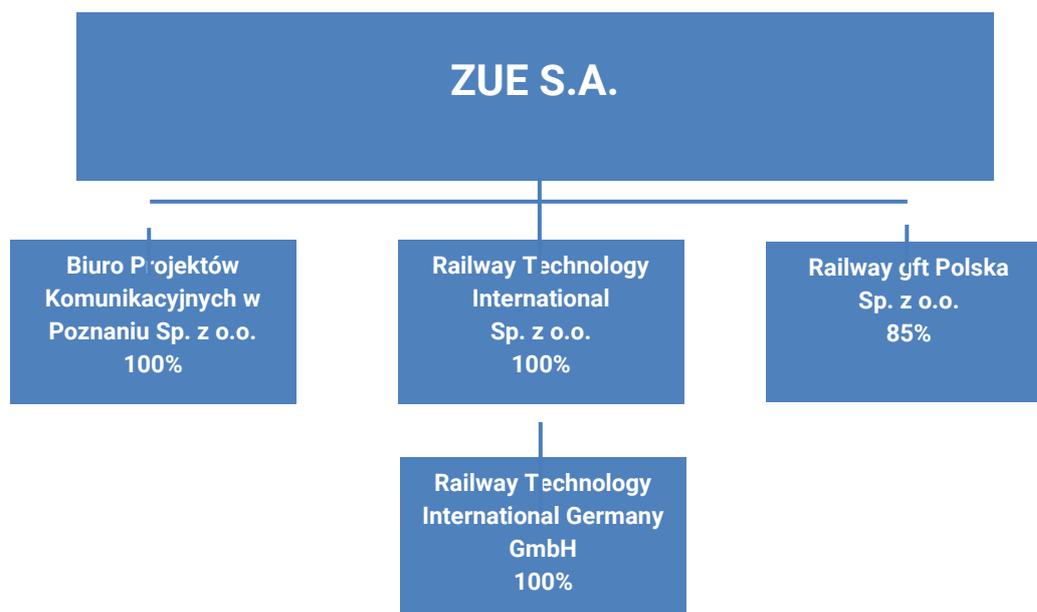
**Subsidiary – Railway gft Polska Sp. z o.o.** has been established under the deed of 21 October 2014 in the Notary's Office in Cracow, the Lubicz Street no. 3 (Rep. A no. 3715/2014). Cracow is the company's registered office. The company has been entered into the National Court Register maintained by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

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

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

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

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



## 1.2. Consolidated companies

Consolidated companies at 30 June 2018:

Company	Registered office	Interests as at			Consolidation method
		30 June 2018	31 December 2017	30 June 2017	
ZUE S.A.	Cracow	Parent company			
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	70%	70%	70%	Full

ZUE is entitled to manage the financial and operating policy of BPK Poznań and Railway gft because it holds a 100% and 70% interest (an 85% interest in Railway gft at this report preparation date), respectively, in these companies.

ZUE holds 100% of shares in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Sp. z o.o. is not consolidated as at 30 June 2018.

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 is not consolidated as at 30 June 2018.

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

On 10 April 2018, ZUE acquired 2,205 shares in RTI from Mr. Wiesław Nowak, the Management Board President, for the total amount of PLN 58 thousand. After the transaction, ZUE holds a 100% interest in the share capital of RTI and the total number of votes.

On 23 July 2018, ZUE acquired 450 shares in Railway gft from an individual. After the transaction, ZUE holds an 85% interest in Railway gft.

No changes to the Group's structure occurred in the reporting period other than the abovementioned transactions.

## 2. Activities of the Capital Group

The Group identifies the three aggregate operating segments:

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

**Construction** activities include:

- **Urban infrastructure**, including:
  - Construction and upgrade of tram tracks, tram and trolleybus traction networks, traction substations, street lighting, cable lines, street traffic signalling, road systems, buildings and telecommunications technology;
  - Maintenance of tram and street lighting infrastructure.
- **Rail infrastructure**, including:
  - Construction and upgrade of railway tracks, railway traction, railway traffic control devices and telecommunications technology, traction substations, stations and civil structures.
- **Distribution and transmission lines power infrastructure**, including:
  - Construction and upgrade of high and very high voltage cable and overhead lines, transformer stations, including telecommunications technology equipment and MV and LV cable lines.

The construction activity conducted by ZUE is expanded to enable the Company to deliver, based on its own skills and resources, reinforced concrete projects such as viaducts, bridges, culverts, resistance walls or sound barriers.

**Design activities** concerning urban and rail transport systems and power industry supplement the abovementioned construction activities.

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

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

The operating segments' financial data has been presented in the note no. 4.7.12 of the Condensed Consolidated Financial Statements for H1 2018.

### 3. Sales markets

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

The construction activity of ZUE is conducted mainly on the urban and rail infrastructure market. The table below sets out major construction contracts in progress.

Contract*	Contracting authority	Contract net value (PLNm) attributable to ZUE
Design services and construction works in connection with the following project: "Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section" executed as part of Eastern Poland Operating Programme.	PKP PLK S.A.	379
Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the following project: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section."	PKP PLK S.A.	372
Design and construction services in connection with the project no. 1: "Works on the Chabówka - Zakopane railway line no. 99" and the project no. 2: "Construction of railway link in Chabówka along the Sucha Beskidzka – Chabówka railway line no. 98 and the Chabówka – Zakopane railway line no. 99."	PKP PLK S.A.	330
Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section, Infrastructure and Environment Operational Programme (POIiŚ) 5.1-12.	PKP PLK S.A.	303
Provision of design services and completion of works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola."	PKP PLK S.A.	281
Design and construction services in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section."	PKP PLK S.A.	209
Completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF).	PKP PLK S.A.	233
Provision of design services and completion of construction works in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of 2014 Infrastructure and Environment Operational Programme (IEOP)."	PKP PLK S.A.	96
Reconstruction of the tramway from Lecha estate to Żegrze roundabout (section II).	Poznańskie Inwestycje Miejskie Sp. z o.o.	83
Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16 "Improvement of capacity of E 20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the Łowicz Local Traffic Control Centre (LCS) section."	PKP PLK S.A.	80
Preparation of building and detailed designs and the completion of LOT B works as part of "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II.	PKP PLK S.A.	72
Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow and additional contract.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	60
Reconstruction of rail transport infrastructure in Bydgoszcz along the Wojska Polskiego Street from Magnuszewska terminus to Wojska Polskiego, Szpitalna, Szarych Szeregów and Bełzy transport hub.	The City of Bydgoszcz	53
Provision of design services and completion of construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section)."	PKP PLK S.A.	53

Provision of design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: "Investment project at the Medyka - Mościska II border crossing."	PKP PLK S.A.	48
Maintenance and repair of tram infrastructure in Cracow in the period 2015-2018.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	48
Modernisation of E30 railway line Kraków Medyka, the Biadoliny – Tarnów section.	OHL ZS, a.s. S. A. Polish Branch	46
Design services and construction works in connection with the following project: "Construction of the Czarnca - Włoszczowa Płn. railway line no. 582."	PKP PLK S.A.	40
Modernisation of OCL network, B1.G Krzewie - Kłodawa section (140,000-155,000) – works in the area of the Kutno Local Traffic Control Centre (LCS).	Budimex S.A.	33
Construction of transport hub – the Zawodzie hub as part of the following project: "Katowice System of Integrated Transport Hubs – the Zawodzie hub."	Tramwaje Śląskie S.A.	28
Construction works on the line no. 95 of the Kościelniki – Podłęże section.	PKP PLK S.A.	25
Works on the Warszawa Osobowa -Dorahusk railway line no. 7, the Warszawa - Otwock- Dęblin - Lublin section at km 26.050-175.850 as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-11.1: Works on the Warszawa Osobowa -Dorahusk railway line no. 7, the Warszawa - Otwock- Dęblin - Lublin section, stage I – partial order C – upgrade of the line no. 7 of the Dęblin – Lublin section.	ASTALDI S.p.A. Polish Branch	20
Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	16
Sustainable city transport in Gorzów Wlkp. – Reconstruction of tracks in the Walczaka Street.	The City of Gorzów	15

\* Contracts whose net value exceeds PLN 10m.

Design services provided by BPK Poznań and related to urban and rail communication systems are provided both to investors and companies which execute "design-build" projects. The biggest clients of BPK Poznań in the reporting period included: PKP Polskie Linie Kolejowe S.A., Poznańskie Inwestycje Miejskie, MZK Bydgoszcz, Tramwaje Warszawskie Sp. z o.o., PGE Dystrybucja S.A. Rzeszów Branch, PGE Dystrybucja S.A. Zamość Branch and BALZOLA SP. z o.o.

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

#### 4. Backlog

ZUE's orders relating to its construction activities are the biggest item of the Group's backlog.

At this report preparation date, the net value of the contracted construction and assembly services is PLN 2,286m and provides the Group with an ability to carry out the works in the period 2018-2021. As for design services, the net value of the signed contracts scheduled for performance in 2018-2020 is PLN 7m. The backlog relating to the supply of materials and equipment in 2018 is worth PLN 21m (net). To secure the performance of contracts, the Group signed a number of master agreements for the supply of strategic materials. The estimate security for the supply of strategic materials required to perform the construction contracts won by the Group: rails – about 100%, railway switches – about 70%, breakstone – about 70% and sleepers – about 80%.

The value of the signed new construction contracts in 2018 is about PLN 495m out of which PLN 145m relates to city contracts.

At this report preparation date, ZUE has submitted the most economically advantageous tenders in connection with the tender procedures whose net value is approx. PLN 143m.

Regardless of this, the Issuer participates in tender procedures for the total estimated amount of approx. PLN 5.6bn.

Since the tender procedures have started, the Group's development prospects in 2018 are assessed by the

Company's Management Board as good. It should be noted, however, that due to the growing costs of labour, materials and services, a considerable number of submitted tenders exceed the amount investors intend to spend on the project as a result of which tender procedures are repeatedly cancelled according to the law.

The companies within the Group participate in tenders both in Poland and abroad. The Group's focus is predominantly on the European market.

## 5. Issuer's major achievements or failures

In the first half of 2018, both the Issuer and the Group reported a significant year-over-year increase in revenue; i.e. by 190% and 196%, respectively. A year-on-year increase in sales produced better financial results. All profit items reported by both the Company and the Group in the first six months of 2018 were positive. Financial results are discussed in detail in the note no. 4.1 of the Condensed Consolidated Financial Statements for H1 2018.

By this report preparation date, no major events occurred other than the events described in detail in section 10 of the Management Board Report.

## 6. Strategic objectives

The main strategic objective in 2018-2021 is to take a maximum advantage of the current EU perspective.

The Group's strategic objectives include:

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

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

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

## 7. Market growth prospects

### Rail infrastructure market

The rail infrastructure market is the main market the Group operates in and generates the biggest portion of the Group's revenue. Most of the contracts performed by the Company are railway contracts. ZUE continues its activities aimed at the expansion of the backlog on this market. After it has considered the plans set out in the National Railway Programme and the plans following the execution of the said Programme, the Group believes that the rail infrastructure construction market enjoys broad prospects in the forthcoming years.

### Urban infrastructure market

2018 witnesses a recovery in announcing tenders for urban infrastructure construction projects. The Company believes that this trend will continue in 2018 and a big number of tenders will be announced for major projects on the urban market, which have been included in the long-term plans concerning the extension of tram networks.

### Power infrastructure market

The Group is not currently focusing on this market. The market, however, is observed by the Group.

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

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

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

The Group's construction activities involve the use of products and raw materials such as concrete, aggregates, asphalt, steel elements (including HV tram and rail traction network posts, lamp posts, rails or crossovers) and copper and aluminium elements (including power cables, lines and contact wires) and, given a big number of machines, liquid fuels (including diesel oil and petrol). Prices may also increase after certain fees (e.g. duties) have been imposed. Given the fluctuating prices of these materials, the companies within the Group are exposed to price risk.

- **Higher fees charged by subcontractors**

When performing its contracts, the Group subcontracts certain construction and assembly tasks to specialised companies. Changing prices of raw materials and liquid fuels entail a risk relating to the estimation of costs incurred by subcontractors and, consequently, have a direct influence on the fees charged by subcontractors. This has a negative impact on the Group's financial results. A greater number of tenders may have a negative influence on the Group's ability to engage certain subcontractors as well as the fees charged by them.

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

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

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

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

Not only do the lengthy procurement procedures produce additional costs of the appeal but they also entail a risk of growth in prices of goods and services. Signing a contract at a later date may make a project execution conditional on weather conditions because certain projects must not be executed in low temperatures or heavy snow or rain fall. Project execution may also be conditional on other factors; e.g. the date of closing the tracks by the contracting authority or the dates on which trees and bushes may be cut down. For these reasons, a part of the Group's planned revenue may be transferred from the current to the next financial year.

- **Unstable EUR/PLN exchange rate**

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

- **Outcome of court proceedings**

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

## 9. Fundamental risks and threats

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

Another risk has occurred in the past years and is related to a loss of financial liquidity by other entities operating in the same sector. Another factor with an influence on financial liquidity may include the split payment mechanism effective from July 2018. A use of split payment by the buyers may limit the financial liquidity of the sellers because they will not be able to freely use the amounts kept on a VAT account.

- **Risk related to greater employment costs**

Given the changeable economic conditions, the Group's aspirations for constant development, raising the quality of the provided services and insufficient number of people practicing the professions which require proper licences, skills and experience, qualified workers may be difficult to find and the costs of employment may grow, which may have an influence on the financial results of both ZUE and the entire Group. To reduce the risk, the Issuer undertakes the activities aimed at strengthening the relations with the Group's employees by offering benefits other than salaries and wages and providing opportunities for personal development at the Group.

- **Risk related to logistics**

A risk of the accumulation of tender outcomes may limit transport capacity and the ability to obtain strategic materials as well as railway traffic control devices. In addition, transport fees may grow.

- **Risk of untimely completion of construction works**

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

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

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

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

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

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

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

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

In order to carry out construction contracts, the Group enters into agreements with suppliers, subcontractors, consortium members and investors. There is a risk of improper performance of the agreements by counterparties. For instance, the performance of tasks by a subcontractor may be faulty or inconsistent with the agreement or a well-grounded claim may be rejected by an investor. These factors may have a negative influence on the Group's financial results.

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

Construction contracts and work-for-hire contracts concluded by the Group provide for the obligation to provide performance bonds and defects liability bonds in the form of deposits or bonds issued by banks or insurance companies. Moreover, contracting authorities expect longer warranty periods. These contracts also provide for contractual penalties if a deadline for the completion of the tasks specified therein is missed. The Group cannot

exclude the risk of missing a deadline for the completion of construction contracts or work-for-hire contracts or the failure to meet the deadline for the completion of warranty works connected with the removal of defects. Thus, a contracting authority may exercise its right to use the bonds or demand contractual penalties or damages. In addition, the Group cannot exclude the risk of disputes related to the failure to duly or timely perform the contracts. The factors could have a negative impact on the Group's financial results.

- **Risk related to bankruptcy of counterparties**

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

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

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

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

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

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

The Group participates in public tenders and includes target contracts in its financial plans. A risk that a decision will be unfavourable or the tender will be cancelled by a contracting authority cannot be excluded. In addition, the announcing of tenders or awarding contracts by contracting authorities may be delayed. Another risk includes, for instance, a consortium partner's failure to maintain their bid (extend the bid bond) as a result of which a contract with a specific investor could not be signed and consequently, potential revenue would be lost.

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

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

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

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

- **Risk related to weather conditions**

The Group's construction tasks related to urban, power and rail infrastructure cannot be done in unfavourable

weather conditions. Due to low temperatures in autumn and winter, many tasks have to be slowed down or even stopped to meet technological regimes. If unfavourable weather conditions continue for too long, the situation may have a negative impact on the Group's financial results.

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

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

- **Interest rate risk**

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

- **Risk related to influence on natural environment**

The activities conducted by the Group companies require them to observe a number of environmental protection rules relating, *inter alia*, to emissions into the air, waste management, impact on groundwater or protection of flora and fauna in the project execution areas. These rules are imposed by both the common law and individual requirements of investors involved in certain projects. The Issuer takes measures to ensure full compliance with particular requirements by observing internal instructions and procedures included in the environment-related Integrated Management System.

- **Risk related to social issues and human rights**

A dispute may occur between the Issuer and the society (especially local communities) concerning a negative influence of the Issuer's operations or the violation of laws on the protection of human rights in the chain of supplies including the Group. Apart from financial consequences, if any, the dispute may result in serious damage of the Issuer's image which could have an impact on the Issuer's future relations with contracting authorities; i.e. entities which use public funds. Accordingly, activities are undertaken by the Group to eliminate, reasonably restrict or promptly remove the consequences of any negative influence. In addition, the conduct of activities with respect for human rights is the issue of key importance to the Group.

- **Risk related to corruption**

Sales and purchases are the areas at special risk of corruption. In addition, a considerable part of revenue generated by the Group comes from public funds. Therefore, the Issuer's cooperation with its major customers requires a special focus and transparency. The Issuer has employed a number of solutions whose aim is to reduce the risk of corruption, including ethical management policy and whistle-blower protection.

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

## 10. Major events in the reporting period

### Construction works:

On 14 February 2018, the Company learnt about the conclusion by the other party of the construction agreement (the Agreement) between the Company and the consortium of FIMA Polska sp. z o.o. of Warsaw and UAB FIMA of Vilnius (the Subcontractor). The Agreement dealt with the construction works performed by the Subcontractor on the Trzebinia - Oświęcim section (the "Contract"). The Company informed about the contract in the current report 63/2017 of 2 October 2017. The Agreement net value: PLN 29.5m. The Agreement completion date was the same as the Contract completion date. **(Current report 2/2018)**

On 19 March 2018, the Company and PKP PLK signed the contract concerning the following project: Design and construction services in connection with the project no. 1: "Works on the Chabówka - Zakopane railway line no. 99" and the project no. 2: "Construction of railway link in Chabówka along the Sucha Beskidzka - Chabówka railway line no. 98 and the Chabówka - Zakopane railway line no. 99." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 78/2017. The

contract net value: PLN 330m. The contract gross value: PLN 406m. Project completion date: 42 months of the contract conclusion date. **(Current report 5/2018)**

On 21 March 2018, the agreement was entered into between the Company and INTOP Tarnobrzeg sp. z o.o. (the Subcontractor). The agreement dealt with the provision of design and construction services by the Subcontractor to the Company in connection with the Company's performance of the contract in the Skarżysko Kamienna – Sandomierz section. The agreement net value: PLN 28.1m. The agreement completion date was the same as the contract completion date. **(Current report 6/2018)**

On 23 March 2018, the Company received the signed agreement between the Company and PKP Energetyka S.A. (the Subcontractor). The agreement dealt with the provision of construction services by the Subcontractor to the Company in connection with the Company's performance of the contract in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section. The agreement net value: PLN 22.9m. The agreement completion date: September 2020. **(Current report 7/2018)**

On 18 April 2018, the agreement was entered into between the Company and Kolejowe Zakłady Automatyki S.A. (the Subcontractor). The agreement dealt with the provision of construction services by the Subcontractor to the Company in connection with the Company's performance of the contract in the Skarżysko Kamienna – Sandomierz area. The agreement net value: PLN 88.3m. The agreement completion date: January 2021. **(Current report 8/2018)**

On 22 May 2018, the Company received a signed copy of the agreement with PKP PLK for design and construction services relating to comprehensive replacement of OCL network on the railway line no. 146 as part of the Infrastructure and Environment Operational Programme (*POIiŚ*) 5.2-4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section." The services specified in the agreement are provided in addition to the contract performed by the Company in the Wyczerpy – Chorzew Siemkowice area. The Company informed about the contract conclusion in the current report 38/2017. The agreement net value: PLN 35.5m. The agreement gross value: PLN 43.7m. Completion date: March 2020. **(Current report 17/2018)**

On 28 May 2018, the Company entered into the master agreement with the manufacturer of precast concrete products. The agreement dealt with the sale of building materials to the Company of the estimated total net value of approx. PLN 74m. The agreement will be performed on the basis of individual orders made by the Company. The agreement completion date: 2019. **(Current report 18/2018)**

On 5 June 2018, the Company learnt about the judgment delivered on the same date by the National Appeals Chamber (the Chamber). The Chamber ordered that the selection by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (the Contracting Authority) of the most economically advantageous tender submitted in the tender procedure concerning the reconstruction of the line of the Królewska, Podchorążych and Bronowicka Streets in Cracow, the reconstruction of tramway tracks, OCL network and dehydrating and lightening system and the reconstruction of colliding technical infrastructure be cancelled and the contractor that ranked first be excluded. The tender submitted by the Company ranked second. **(Current report 23/2018)**

On 14 June 2018, learnt about the cancellation by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie of the tender procedure for the Cracow project named: "Reconstruction of tram tracks along the Królewska Street from the Rollego Street to the Dietla Street, the reconstruction of the road system, pavements, paths, the associated technical infrastructure and the Krakowska-Dietla-Stradomska rail hub, the reconstruction of the Dietla Street from the Bożego Ciała Street to the Augustiańska Street and the reconstruction of the Piłsudski bridge over the Vistula river." The Company informed about the submission of the most economically advantageous tender in the current report 24/2018. **(Current report 26/2018)**

On 18 June 2018, the Company and Electren S.A. with registered office in Madrid (the Subcontractor) defined the terms of additional works that would be performed by the Subcontractor under the subcontractor agreement (the Agreement). The Agreement provides for the performance by the Subcontractor of the construction works on the Wyczerpy – Chorzew Siemkowice section (the Contract). The Company informed about the Contract performance in the current report 38/2017. After the scope of the works was extended, the Subcontractor would be paid the additional remuneration of approx. PLN 28m. Together with the remuneration for the initial scope of the works, the total value of the Agreement is approx. PLN 34m. **(Current report 27/2018)**

On 25 June 2018, the Company learnt about the cancellation by PKP Polskie Linie Kolejowe S.A. (the Contracting Authority) of the tender procedure for the project named: Development of design documentation and completion of construction works as part of "design-build" project named: LOT B – works on the railway line 131 of the Nakło Śląskie (29,000 km) – Kalina (66,800 km) section in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-14: "Works on the railway line C-E-65 of the Chorzów Batory - Tarnowskie Góry – Karsznice – Inowrocław – Bydgoszcz – Myksymilianowo section" on the basis of Art. 93.1.4 of the Public Procurement Act. The Company informed about the submission of the lowest price tender in the current report 28/2018. **(Current report 29/2018)**

On 26 June 2018, the Company and the City of Bydgoszcz signed the contract in connection with the following project: "Reconstruction of rail transport infrastructure along the Wojska Polskiego Street from Magnuszewska terminus to Wojska Polskiego, Szpitalna, Szarych Szeregów and Bełzy transport hub." The Company informed about the submission and selection of the most economically advantageous tender in the current report 11/2018 and the current report 25/2018, respectively. The contract net value: PLN 52.8m. The contract gross value: PLN 65.0m. The project completion date: October 2019. **(Current report 31/2018)**

On 26 June 2018, the Company and Astaldi S.p.A. with registered office in Rome (the Counterparty) which provided for the rental of building machinery by the Company. Accordingly, the total net value of contracts entered into between the companies within the Group and the Counterparty since 9 May 2018 amounted to approx. PLN 21.9m. **(Current report 32/2018)**

On 29 June 2018, the Company learnt about the cancellation by Miasto Bydgoszcz - Zarząd Dróg Miejskich i Komunikacji Publicznej w Bydgoszczy [The City of Bydgoszcz – The Board of City Roads and Public Transport in Bydgoszcz] (the Contracting Authority) of the tender procedure for the project named: "Reconstruction of tram tracks and construction of bicycle lanes along the Toruńska Street in Bydgoszcz." The Company informed about the submission of the most economically advantageous tender in the current report 15/2018. The procedure was cancelled by the Contracting Authority according to Art. 93.1.4 of the Public Procurement Act. **(Current report 33/2018)**

#### Financial events:

On 15 February 2018, the Company published preliminary financial results for 2017. **(Current report 3/2018)**

On 9 May 2018, the Company published preliminary financial results for the first quarter of 2018. **(Current report 14/2018)**

#### Corporate events:

On 15 March 2018, the Company's Supervisory Board passed a resolution concerning the cooperation with auditor. **(Current report 4/2018)**

On 24 April 2018, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit of the Company for the financial year 2017 of PLN 0.8m to reserve funds. On 16 May 2018, the Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations **(Current report 9/2018 and Current report 16/2018)**

On 5 June 2018, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2017 to reserve funds. **(Current report 21/2018)**

On 26 June 2018, the Company received the notice from NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. according to which all investment funds managed by NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. exceeded 5% of votes at the Company's general meeting. **(Current report 30/2018)**

## 11. Major events after the end of the reporting period

On 5 July 2018, the agreement was signed between the Company and Electren S.A. with registered office in Madrid (the Subcontractor). The agreement deals with the performance by the Subcontractor of specific construction works in connection with the Issuer's performance of the contract on the Częstochowa – Zawiercie

section. The agreement net value: PLN 43.4m. The agreement completion date: July 2020. **(Current report 34/2018)**

On 11 July 2018, the Company learnt about the selection by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the project named: "Reconstruction of the line of the Królewska, Podchorążych and Bronowicka Streets in Cracow, the reconstruction of tramway tracks, OCL network and dehydrating and lightening system and the reconstruction of colliding technical infrastructure." The tender net value: PLN 62.6m. The tender gross value: PLN 77m. Project completion date: 12 months. **(Current report 35/2018)**

On 17 July 2018, the Company and the City of Poznań entered into the contract in connection with the project named: "Reconstruction of the tramway from Lecha estate to Żegrze roundabout (section II)." The Company informed about the submission and selection of the most economically advantageous tender in the current reports 10/2018 and the current report 20/2018. The contract net value: PLN 82.6m. The contract gross value: PLN 101.5m. Project completion date: 16 months of the contract conclusion date. **(Current report 36/2018)**

On 19 July 2018, the consortium of ZUE (Leader), Przedsiębiorstwo Inżynieryjne "IMB-Podbeskidzie" sp. z o.o. (Partner) and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. (Partner) signed an annex to the contract with Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (ZIKiT) for the project named: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow." The Company informed about the abovementioned contract in the current report 24/2017. The annex provides for the additional works relating to the said project as a result of which the consortium's remuneration for the contract performance had been increased to the net amount of PLN 201.7m (gross amount of PLN 248.0m) and the contract completion date has been postponed until 15 May 2020. The additional works specified in the annex would be performed by the consortium partners. **(Current report 37/2018)**

On 20 July 2018, the Company and Bank Gospodarstwa Krajowego with registered office in Warsaw (the Bank) entered into the agreement for the bond line up to PLN 100m (the Limit) to secure the performed contracts, orders and agreements. The sublimit of PLN 40m was created for the provision of performance bonds. The maximum amount of a single bond other than a performance bond was PLN 50m. The revolving Limit is available until 19 July 2019. **(Current report 38/2018)**

On 9 August 2018, the agreement was signed between the Company and Wadoma Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Nowy Sącz (the Subcontractor). The agreement deals with the provision by the Subcontractor of design and construction services on the Chabówka – Zakopane and the Sucha Beskidzka – Chabówka sections. The Company informed thereof in the current report 5/2018 of 19 March 2018. The agreement net value: PLN 81m. The agreement completion date: 18 September 2021. **(Current report 39/2018)**

On 24 August 2018, the Company learnt about the Company's submission of the most economically advantageous tender in the tender procedure for the Cracow project named: "Maintenance and repair of tram infrastructure in Cracow in the period 2018-2021." (Contracting Authority: Zarząd Infrastruktury Komunalnej i Transportu w Krakowie). The tender net value: PLN 80.4m. The tender gross value: PLN 98.9m. Project completion date: 29 months. **(Current report 41/2018)**

## 12. Transactions with related entities

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

Section 4.7.8 "Transactions with related entities" of the Condensed Consolidated Financial Statements for H1 2018 contains detailed information about the transaction with related entities.

## 13. Bonds, guarantees, credit lines and loans

The activities conducted by the Group require it to provide bonds. The bonds include, first and foremost, bid bonds, performance bonds, defects liability bonds and advance payment bonds provided by banks and insurance

companies to the Group's counterparties to secure their claims against the Group. Banks and insurance companies have recourse against the Company.

As at 30 June 2018:

- There are no bonds provided directly by the Group;
- The value of unused bond lines at the Group is PLN 301,510 thousand (including credit limits of PLN 80,000 thousand);
- The value of unused bond lines at the Company is PLN 300,522 thousand (including credit limits of PLN 80,000 thousand).

After the end of the reporting period, ZUE entered into the bond agreement with Bank Gospodarstwa Krajowego whereby it was granted the limit of PLN 100,000 thousand.

ZUE may use the limits provided by banks for both bank guarantees and revolving credit facility. At the end of the reporting period, the limits are used for the bank guarantees.

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 2018 is PLN 18,505 thousand.

Credit agreements and the use thereof are discussed in the note 4.6.1 of the Condensed Consolidated Financial Statements for H1 2018.

At the end of the reporting period, the value of the granted loans is PLN 3,268 thousand. Loans are discussed in the note 4.7.5 of the Condensed Consolidated Financial Statements for H1 2018.

In the first half of 2018, neither the Parent Company nor the subsidiaries guaranteed any loan or credit or jointly provided any bonds to a single entity or their subsidiary of any significant total value.

---

## CORPORATE INFORMATION

---

### 14. Governing bodies of ZUE

Composition of the Parent Company's managing and supervisory bodies at the date of approval of this report:

Management Board:

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

Supervisory Board:

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

Audit Committee:

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

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

### 15. Shares and share capital

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

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

At this report preparation date, the Company holds 264,652 treasury shares whose purchase value is PLN 2,690 thousand. The shares were acquired by the Company from the employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., the company which merged with ZUE S.A., as part of the buy-back effected in 2015

The shares were bought back on the basis of the Resolution no. 4 passed by the Company's Extraordinary General Meeting on 8 December 2014 authorising the Management Board of ZUE S.A. to buy back own shares. The transaction was described in detail in the note no. 25 of the Consolidated Financial Statements for the year ended 31 December 2015.

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

Shareholder	At the date of preparation of this half-yearly report; i.e. 3 September 2018		At the date of publication of the last interim report <sup>(1)</sup>	
	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 <sup>(2)</sup>	6.08	1,400,000 <sup>(2)</sup>	6.08
PKO Bankowy OFE	1,500,000 <sup>(3)</sup>	6.51	1,500,000 <sup>(3)</sup>	6.51
NN Investment Partners TFI	1,190,437 <sup>(4)</sup>	5.17	-	-
Other	4,539,326 <sup>(5)</sup>	19.71	5,729,763 <sup>(5)</sup>	24.88
<b>Total</b>	<b>23,030,083</b>	<b>100</b>	<b>23,030,083</b>	<b>100</b>

(1) Publication of the last interim report (Consolidated Report of ZUE S.A. for Q1 2018): 22 May 2018.

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

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

(4) Shareholding on the basis of the notice of exceeding 5% of the total vote of 26 June 2018 referred to by the Issuer in the current report 30/2018 of 26 June 2018.

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

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

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

Shareholder	Position	Number of shares/votes at 3 September 2018	% of the share capital/total number of votes	Changes in shareholding since the preparation of the last interim report; i.e. 22 May 2018
Wiesław Nowak	Management Board President	14,400,320	62.53	None
Marcin Wiśniewski	Management Board Vice-President	2,300	0.01	None
Jerzy Czeremuga	Management Board Vice-President	136	< 0.01	None
Maciej Nowak	Management Board Vice-President	7,806	0.03	None
Michał Lis	Supervisory Board Member	661	< 0.01	None

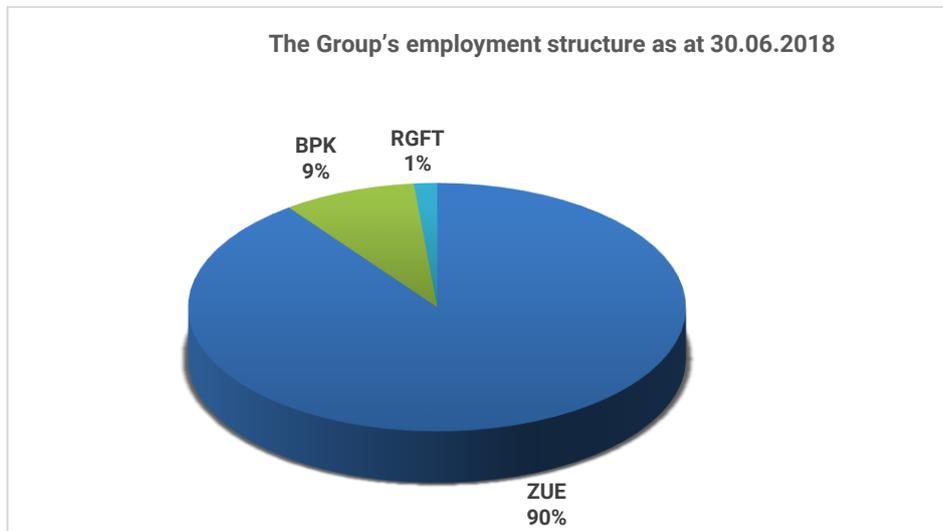
According to the best knowledge of the Company's Management Board, other members of the Issuer's management or supervisory bodies did not hold any ZUE shares at this report preparation date.

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



## 17. Employment in the Group

At 30 June 2018, the Capital Group employed 796 people.



## 18. Court and administrative proceedings

Below please find major proceedings before courts or other authorities concerning the Group's claims and liabilities.

### Pending major court proceedings 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 Petitioners 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.

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.

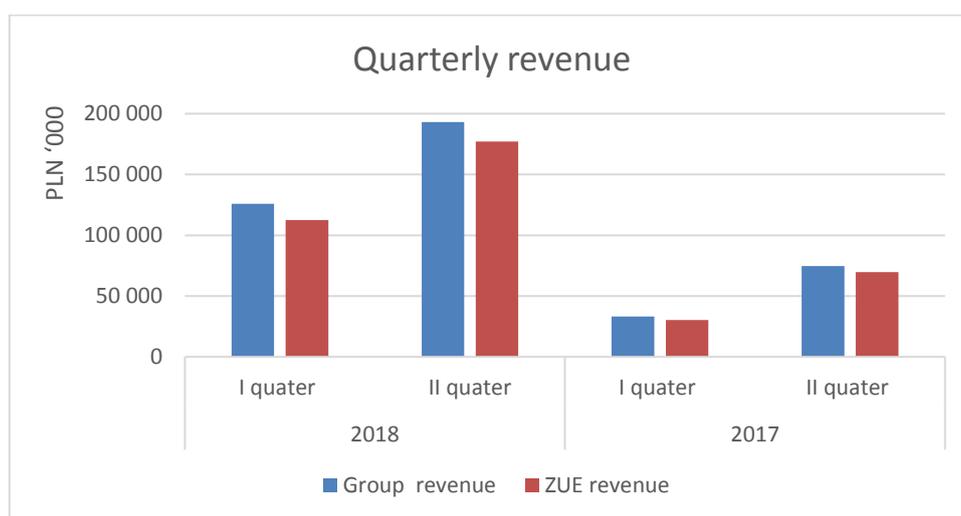
The Company’s total share in the Amount is approx. PLN 15.7m.

There are no major proceedings concerning the Group’s liabilities.

## FINANCIAL INFORMATION

### 19. Discussion of major items of the statement of profit or loss

In the first half of 2018, the Group carried out a significant number of construction contracts. The Group maintained the revenue growth seen in preceding quarters. Revenue generated by the Group in H1 2018 amounted to PLN 319,112 thousand – up by 196% when compared with revenue reported in the analogous period of 2017. Revenue reported by ZUE in H1 2018 was PLN 289,797 thousand (a year-on-year increase of 190%).



All profit items reported by both the Company and the Group in the first six months of 2018 were positive.

The Group's gross profit grew year-on-year by PLN 17,950 thousand; i.e. from PLN (-) 5,819 thousand at the end of the first half of 2017 to PLN 12,131 thousand at the end of the first half of 2018. ZUE's gross profit increased by PLN 15,970 thousand; i.e. from PLN (-) 6,101 thousand at the end of H1 2017 to PLN 9,869 thousand at the end of H1 2018.

When compared with the analogous period of 2017, the Group's operating profit improved by PLN 16,989 thousand (ZUE: by PLN 14,996 thousand) from PLN (-) 15,525 thousand (ZUE: from PLN (-) 13,832 thousand) at the end of H1 2017 to PLN 1,464 thousand (ZUE: to PLN 1,164 thousand) at the end of H1 2018.

The Group's net profit improved year-over-year by PLN 16,190 thousand (ZUE: by PLN 14,111 thousand) from PLN (-) 14,978 thousand (ZUE: from PLN -12,875 thousand) at the end of H1 2017 to PLN 1,212 thousand (ZUE: to PLN 1,236 thousand) at 30 June 2018.

Comparison of the results reported by the Group and ZUE:

Item (PLN '000)	ZUE Group		ZUE	
	30-06-2018	30-06-2017	30-06-2018	30-06-2017
Revenue	319,112	107,843	289,797	100,095
Gross profit (loss)	12,131	-5,819	9,869	-6,101
Operating profit (EBIT)	1,464	-15,525	1,164	-13,832
EBITDA*	6,682	-10,743	6,298	-9,111
Pre-tax profit (loss)	1,521	-17,498	1,609	-15,438
Net profit (loss)	1,212	-14,978	1,236	-12,875

\* Operating profit + depreciation / amortisation.

General and administrative expenses of the Group in the period under analysis stood at PLN 10,451 thousand and grew year-on-year by 1%. General and administrative expenses of the Company in the period under analysis stood at PLN 8,655 thousand and grew year-on-year by 4%.

In the first six months of 2018, the Group reported other operating income to the tune of PLN 978 thousand – down by 51% when compared with the analogous figure reported in the analogous period of 2017 (ZUE: PLN 789 thousand – a year-on-year decrease by 57%). See the note 4.3.3 of the Condensed Consolidated Financial Statements for H1 2018 for details.

Other operating expenses reported by the Group amounted to PLN 1,194 thousand and decreased year-on-year by 10% (ZUE: PLN 839 thousand – a year-on-year decrease by 31%). See the note 4.3.4 of the Condensed Consolidated Financial Statements for H1 2018 for details.

Financial income reported by the Group in the first half of 2018 was PLN 786 thousand and increased over the year by 11%. See the note 4.3.5 of the Condensed Consolidated Financial Statements for H1 2018 for details.

The Group's financial expenses in the first half of 2018 amounted to PLN 729 thousand and decreased by 73% compared to the first half of 2017. (ZUE: PLN 431 thousand – a year-on-year decrease by 83%). See the note 4.3.6 of the Condensed Consolidated Financial Statements for H1 2018 for details.

## 20. Discussion of major balance sheet items

The table below sets out the items of the consolidated and separate statement of financial position reported by the Group and ZUE at 30 June 2018 and the comparative data at 31 December 2017.

Item (PLN '000)	ZUE Group		ZUE	
	30-06-2018	31-12-2017	30-06-2018	31-12-2017
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	105,990	95,023	103,069	92,004
Investment property	5,434	5,591	8,874	9,095
Intangible assets	8,843	9,087	8,350	8,594
Goodwill	31,172	31,172	31,172	31,172
Investments in non-consolidated subsidiaries	0	0	210	210
Long-term receivables	0	0	0	0
Retentions on construction contracts	10,065	9,696	9,648	9,439
Deferred tax assets	7,716	8,024	7,431	7,803
Advanced loans	0	0	0	0
Other assets	0	0	0	0
<b>Total non-current assets</b>	<b>169,220</b>	<b>158,593</b>	<b>168,754</b>	<b>158,317</b>
<b>Current assets</b>				
Inventories	44,358	27,938	36,904	24,239
Trade and other receivables	101,366	117,940	95,057	105,746
Valuation of long-term construction contracts	148,327	74,208	138,035	65,524
Retentions on construction contracts	552	4,718	233	4,393
Current tax assets	0	0	0	0
Other financial assets	0	0	0	0
Advanced loans	3,268	10	3,266	10
Other assets	1,291	1,097	1,016	909
Cash and cash equivalents	9,889	117,748	9,491	116,144
<b>Total current assets</b>	<b>309,051</b>	<b>343,659</b>	<b>284,002</b>	<b>316,965</b>
<b>Total assets</b>	<b>478,271</b>	<b>502,252</b>	<b>452,756</b>	<b>475,282</b>

Item (PLN '000)	ZUE Group		ZUE	
	30-06-2018	31-12-2017	30-06-2018	31-12-2017
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	5,758	5,758	5,758	5,758
Share premium account	93,837	93,837	93,837	93,837
Treasury shares	-2,690	-2,690	-2,690	-2,690
Retained earnings	113,740	112,605	114,694	113,461
<b>Total equity attributable to shareholders of ZUE</b>	<b>210,645</b>	<b>209,510</b>	<b>-</b>	<b>-</b>
Equity attributable to non-controlling interests	-17	-91	-	-
<b>Total equity</b>	<b>210,628</b>	<b>209,419</b>	<b>211,599</b>	<b>210,366</b>
<b>Non-current liabilities</b>				
Long-term loans and bank credits and other financing sources	18,863	11,224	18,853	11,205
Retentions on construction contracts	6,710	6,254	6,170	5,755
Other financial liabilities	210	350	0	0
Liabilities under employee benefits	1,938	1,888	880	856
Deferred tax liabilities	0	0	0	0
Long-term provisions	6,489	5,756	6,303	5,671
Other liabilities	0	0	210	350
<b>Total non-current liabilities</b>	<b>34,210</b>	<b>25,472</b>	<b>32,416</b>	<b>23,837</b>
<b>Current liabilities</b>				
Trade and other payables	182,411	223,562	167,843	205,950
Valuation of long-term construction contracts	380	724	65	475
Retentions on construction contracts	6,162	6,795	6,031	6,663
Short-term loans and bank credits and other financing sources	21,794	14,908	14,135	8,773
Other financial liabilities	316	316	36	36
Liabilities under employee benefits	19,058	17,522	17,687	16,184
Current tax liabilities	0	0	0	0
Short-term provisions	3,312	3,534	2,944	2,998
<b>Total current liabilities</b>	<b>233,433</b>	<b>267,361</b>	<b>208,676</b>	<b>240,604</b>
<b>Total liabilities</b>	<b>267,643</b>	<b>292,833</b>	<b>241,157</b>	<b>264,916</b>
<b>Total equity and liabilities</b>	<b>478,271</b>	<b>502,252</b>	<b>452,756</b>	<b>475,282</b>

At 30 June 2018, the Group's total assets and liabilities stood at PLN 478,271 thousand. The Company's total assets and liabilities amounted to PLN 452,756 thousand.

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

Item	PLN '000			Description
	Change (compared to 31.12.2017)	Balance at 30-06-2018		
<b>Assets</b>				
Property, plant and equipment	10,967	105,990		Increase as a result of investments in machinery and vehicles (e.g. piling station, wagons and rail welding machine).
Inventories	16,420	44,358		Increase as a result of greater need of building materials in connection with the performance of contracts.
Trade and other receivables	-16,574	101,366		Ongoing settlements relating to performed contracts.
Valuation of long-term construction contracts	74,119	148,327		Greater progress of works relating to the performance of new contracts.
Cash and cash equivalents	-107,859	9,889		Use of own resources to conduct operating activities.
<b>Liabilities</b>				
Trade and other payables	-41,565	182,721		Payments to suppliers and subcontractors.
Loans and bank credits and other financing sources	14,525	40,657		Conclusion of new leases.

## 21. Discussion of items of the statement of cash flows

The Group's cash flows from operating activities of PLN (-) 97,728 thousand were mainly influenced by changes in retentions, payables, receivables and inventories in connection with the performance of construction contracts.

Cash flows from investing activities of PLN (-) 16,732 thousand were mainly influenced by the purchase of non-current assets (specialist machinery). The transactions were financed by a loan and own resources.

Cash flows from financing activities of PLN 6,568 thousand were influenced by the leaseback used to finance the purchase of specialist equipment, the decrease in liabilities under leases and the use of credit lines by subsidiaries.

Item (PLN '000)	ZUE Group		ZUE	
	30-06-2018	30-06-2017	30-06-2018	30-06-2017
Cash flows from operating activities	-97,728	-81,549	-95,225	-79,803
Cash flows from investing activities	-16,732	35,410	-16,789	35,306
Cash flows from financing activities	6,568	9,818	5,328	8,876
Total net cash flows	-107,892	-36,321	-106,686	-35,621
Foreign exchange gains / (losses)	33	-729	33	-723
Cash and cash equivalents at the beginning of the period	117,748	62,717	116,144	61,207
<b>Cash and cash equivalents at the end of the period</b>	<b>9,889</b>	<b>25,667</b>	<b>9,491</b>	<b>24,863</b>
Depreciation / amortisation	5,218	4,782	5,134	4,721

## 22. Ratio analysis

### 22.1. Debt ratio

Item	ZUE Group		ZUE		Formulas
	30-06-2018	31-12-2017	30-06-2018	31-12-2017	
Net debt	31,294	-90,950	23,533	-96,130	(long- and short-term loans and bank credits and other financing sources + long- and short-term other financial liabilities) – cash and cash equivalents – other financial assets
Debt ratio	0.6	0.6	0.5	0.6	(non-current and current liabilities + provisions for liabilities) / total assets
Debt to equity ratio	1.3	1.4	1.1	1.3	(non-current and current liabilities) / equity
Equity to assets ratio	0.4	0.4	0.5	0.4	equity / total assets
Constant capital to non-current assets ratio	1.4	1.5	1.4	1.5	(equity + non-current liabilities) / non-current assets
Short-term debt ratio	0.5	0.5	0.5	0.5	current liabilities / total assets
Long-term debt ratio	0.2	0.1	0.2	0.1	non-current liabilities / equity
Interest coverage ratio	-3.1	-1.9	-3.4	-2.7	EBIT / interest

### 22.2. Liquidity ratios

Item	ZUE Group		ZUE		Formulas
	30-06-2018	31-12-2017	30-06-2018	31-12-2017	
Working capital	75,618	76,298	75,261	75,886	current assets – current liabilities
Current ratio	1.32	1.29	1.36	1.31	current assets / current liabilities
Quick ratio	1.13	1.18	1.18	1.21	(current assets – inventory) / current liabilities
Cash ratio	0.04	0.44	0.05	0.48	cash and cash equivalents / current liabilities

## 22.3. Financing structure ratios

Item	ZUE Group		ZUE		Formulas
	30-06-2018	31-12-2017	30-06-2018	31-12-2017	
Equity to assets ratio	0.4	0.4	0.5	0.4	<i>equity / total assets</i>
Equity to non-current assets ratio	1.2	1.3	1.3	1.3	<i>equity / non-current assets</i>
Debt ratio	0.6	0.6	0.5	0.6	<i>(total assets - equity) / total assets</i>
Debt to equity ratio	1.3	1.4	1.1	1.3	<i>(total assets - equity) / equity</i>

## 22.4. Profitability ratios

Item	ZUE Group		ZUE		Formulas
	30-06-2018	30-06-2017	30-06-2018	30-06-2017	
Gross margin	3.8%	-5.4%	3.4%	-6.1%	<i>gross profit / revenue</i>
EBITDA	6,682	-10,743	6,298	-9,111	<i>operating profit + depreciation / amortisation</i>
EBITDA margin	2.1%	-10.0%	2.2%	-9.1%	<i>EBITDA / revenue</i>
EBIT margin	0.5%	-14.4%	0.4%	-13.8%	<i>EBIT / revenue</i>
Gross margin	0.5%	-15.8%	0.6%	-14.9%	<i>gross profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
Net margin	0.4%	-13.5%	0.4%	-12.4%	<i>net profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
ROA	0.3%	-4.4%	0.3%	-3.9%	<i>net profit / total assets</i>
ROE	0.6%	-7.7%	0.6%	-6.5%	<i>net profit / equity</i>

## 23. Discussion of results reported by segments

The total revenue generated by the Group in the first half of 2018 is PLN 319,112 thousand. The biggest portion has been earned from construction activities.

Item (PLN '000)	Construction	Sales	Design	Exclusions	Total
Sales revenue	289,797	27,629	7,038	-5,352	319,112

Sales activities conducted within the Group by Railway gft reported a net profit of PLN 245 thousand and a gross profit of PLN 1,491 thousand.

Design activities conducted by BPK Poznań reported in the first half of 2018 a gross profit of PLN 1,081 thousand and a net loss of PLN 36 thousand. More information about the segments can be found in the note 4.9 of the Condensed Consolidated Financial Statements for H1 2018.

## 24. Statements by the Management Board of ZUE on financial projections

The Company did not publish any financial projections for the financial year 2018.

## **25. Unusual factors and events with significant influence on the Group's results**

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

## **26. Other information significant for the assessment of the Issuer's position**

The Management Board of ZUE believe that there is no information significant for the assessment of its staff, economic and financial position, profit or loss or any changes therein, or information significant for the assessment of the Company's or the Group's ability to perform their obligations other than presented in this report or the financial statements for H1 2018.

---

## STATEMENT BY THE MANAGEMENT BOARD OF ZUE S.A.

---

### 27. Statement of compliance

The Management Board of ZUE state that according to their best knowledge, the half-yearly condensed financial statements for H1 2018 and the comparative information have been prepared in accordance with applicable accounting principles and give a true and fair view of the economic and financial position of both the Company and the Group and their financial performance. The report on activities contains a true view of the Group's development and achievements and the Group's standing, including the description of fundamental risks and threats.

Wiesław Nowak – Management Board President .....

Anna Mroczek – Management Board Vice-President .....

Jerzy Czeremuga – Management Board Vice-President .....

Maciej Nowak – Management Board Vice-President .....

Marcin Wiśniewski – Management Board Vice-President .....

Cracow, 3 September 2018