



ZUE Capital Group

**CONSOLIDATED HALF-YEARLY REPORT
FOR 6 MONTHS ENDED 30 JUNE 2018**

Cracow, 3 September 2018

Contents of the consolidated half-yearly report:

- I. Selected Financial Data of the Group.
- II. Selected Financial Data of ZUE S.A.
- III. Condensed Consolidated Financial Statements of the Group and Notes to the Financial Statements.
- IV. Condensed Separate Financial Statements of ZUE S.A. and Notes to the Financial Statements, and the following separate documents:
 - Management Board Report;
 - Auditor's Report on the Review of Condensed Consolidated Financial Statements of the Group; and
 - Auditor's Report on the 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.
Act	Polish Companies Act (Journal of Laws 2017, item 1577, as amended).

Share capital details of 30 June 2018.

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I. Selected financial data of the Group

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

	Balance at 30-06-2018		Balance at 31-12-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	169,220	38,798	158,593	38,024
Current assets	309,051	70,857	343,659	82,394
Total assets	478,271	109,655	502,252	120,418
Equity	210,628	48,292	209,419	50,210
Non-current liabilities	34,210	7,843	25,472	6,107
Current liabilities	233,433	53,520	267,361	64,101
Total equity and liabilities	478,271	109,655	502,252	120,418

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

	Period ended 30-06-2018		Period ended 30-06-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	319,112	75,272	107,843	25,390
Cost of sales	306,981	72,411	113,662	26,760
Gross profit (loss) on sales	12,131	2,861	-5,819	-1,370
Operating profit (loss)	1,464	345	-15,525	-3,655
Gross profit (loss)	1,521	359	-17,498	-4,120
Net profit (loss) from continuing operations	1,212	286	-14,978	-3,526
Total comprehensive income	1,209	285	-15,028	-3,538

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

	Period ended 30-06-2018		Period ended 30-06-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-97,728	-23,052	-81,549	-19,200
Cash flows from investing activities	-16,732	-3,947	35,410	8,337
Cash flows from financing activities	6,568	1,549	9,818	2,312
Total net cash flows	-107,892	-25,450	-36,321	-8,551
Cash at the beginning of the period	117,748	28,231	62,717	14,177
Cash at the end of the period	9,889	2,267	25,667	6,073

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate	Exchange rate	Exchange rate
		on 30-06-2018	on 31-12-2017	on 30-06-2017
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.3616	4.1709	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	4.2395	n/a	4.2474
"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	4.3616	4.1709	4.2265

II. Selected financial data of ZUE S.A.

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

	Balance at 30-06-2018		Balance at 31-12-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	168,754	38,691	158,317	37,958
Current assets	284,002	65,114	316,965	75,994
Total assets	452,756	103,805	475,282	113,952
Equity	211,599	48,514	210,366	50,437
Non-current liabilities	32,416	7,432	23,837	5,715
Current liabilities	208,741	47,859	241,079	57,800
Total equity and liabilities	452,756	103,805	475,282	113,952

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

	Period ended 30-06-2018		Period ended 30-06-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	289,797	68,356	100,095	23,566
Cost of sales	279,928	66,029	106,196	25,003
Gross profit (loss) on sales	9,869	2,327	-6,101	-1,437
Operating profit (loss)	1,164	275	-13,832	-3,257
Gross profit (loss)	1,609	380	-15,438	-3,635
Net profit (loss) from continuing operations	1,236	292	-12,875	-3,031
Total comprehensive income	1,233	291	-12,925	-3,043

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

	Period ended 30-06-2018		Period ended 30-06-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-95,225	-22,461	-79,803	-18,789
Cash flows from investing activities	-16,789	-3,960	35,306	8,312
Cash flows from financing activities	5,328	1,257	8,876	2,090
Total net cash flows	-106,686	-25 164	-35,621	-8,387
Cash at the beginning of the period	116,144	27,846	61,207	13,835
Cash at the end of the period	9,491	2,176	24,863	5,883

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on	Exchange rate on	Exchange rate on
		30-06-2018	31-12-2017	30-06-2017
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.3616	4.1709	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	4.2395	n/a	4.2474
"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	4.3616	4.1709	4.2265



ZUE Capital Group

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018

Cracow, 3 September 2018

III. Condensed consolidated financial statements of the Group

Consolidated statement of comprehensive income

Continuing operations	Note no.	6 months ended	
		30-06-2018	30-06-2017
Revenue	4.3.1.	319,112	107,843
Cost of sales	4.3.2.	306,981	113,662
Gross profit (loss) on sales		12,131	-5,819
General and administrative expenses	4.3.2.	10,451	10,359
Other operating income	4.3.3.	978	1,984
Other operating expenses	4.3.4.	1,194	1,331
Operating profit (loss)		1,464	-15,525
Financial income	4.3.5.	786	708
Financial expenses	4.3.6.	729	2,681
Pre-tax profit (loss)		1,521	-17,498
Corporate income tax	4.3.7.	309	-2,520
Net profit (loss) from continuing operations		1,212	-14,978
Net profit (loss)		1,212	-14,978
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		-3	-50
Actuarial gains (losses) relating to specific benefit schemes		-3	-50
Total other net comprehensive income		-3	-50
Total comprehensive income		-1,209	-15,028
Number of shares		23,030,083	23,030,083
Consolidated net profit attributable to:			
Shareholders of the parent		1,138	-14,560
Non-controlling interests		74	-418
Net profit (loss) per share (PLN) attributable to shareholders of the parent (basic and diluted)		0.05	-0.63
Total comprehensive income attributable to:			
Shareholders of the parent		1,135	-14,610
Non-controlling interests		74	-418
Total comprehensive income per share (PLN)		0.05	-0.63

Consolidated statement of financial position

ASSETS

Non-current assets

Property, plant and equipment	4.7.1.	105,990	95,023
Investment property	4.7.2.	5,434	5,591
Intangible assets		8,843	9,087
Goodwill	4.7.3.	31,172	31,172
Retentions on construction contracts	4.4.2.	10,065	9,696
Deferred tax assets	4.3.7.	7,716	8,024
Total non-current assets		169,220	158,593

Current assets

Inventories	4.7.6.	44,358	27,938
Trade and other receivables	4.5.1.	101,366	117,940
Valuation of long-term construction contracts	4.4.1.	148,327	74,208
Retentions on construction contracts	4.4.2.	552	4,718
Current tax assets	4.3.7.	0	0
Loans advanced	4.7.5.	3,268	10
Other assets		1,291	1,097
Cash and cash equivalents	4.6.3.	9,889	117,748
Total current assets		309,051	343,659
Total assets		478,271	502,252

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		113,740	112,605
Total equity attributable to shareholders of ZUE		210,645	209,510
Equity attributable to non-controlling interests		-17	-91
Total equity		210,628	209,419

Non-current liabilities

Long-term loans and bank credits and other financing sources	4.6.1.	18,863	11,224
Retentions on construction contracts	4.4.2.	6,710	6,254
Other financial liabilities		210	350
Liabilities under employee benefits		1,938	1,888
Long-term provisions	4.4.3.	6,489	5,756
Total non-current liabilities		34,210	25,472

Current liabilities

Trade and other payables	4.5.2.	182,411	223,562
Valuation of long-term construction contracts	4.4.1.	380	724
Retentions on construction contracts	4.4.2.	6,162	6,795
Short-term loans and bank credits and other financing sources	4.6.1.	21,794	14,908
Other financial liabilities		316	316
Liabilities under employee benefits		19,058	17,522
Current tax liabilities	4.3.7.	0	0
Short-term provisions	4.4.3.	3,312	3,534
Total current liabilities		233,433	267,361
Total liabilities		267,643	292,833
Total equity and liabilities		478,271	502,252

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 2018	5,758	93,837	-2,690	112,605	209,510	-91	209,419
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	1,138	1,138	74	1,212
Other net comprehensive income		0	0	0	-3	-3	0	-3
Balance at	30 Jun 2018	5,758	93,837	-2,690	113,740	210,645	-17	210,628

		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

Consolidated statement of cash flows

	Period ended 30-06-2017	Period ended 30-06-2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	1,521	-17,498
Adjustments for:		
Depreciation and amortisation	5,218	4,782
Foreign exchange gains / (losses)	-33	729
Interest and share in profit (dividends)	398	231
(Gain) / loss on disposal of investments	-128	-1,139
Accrued expenses under commission on credits	0	-9
Operating profit (loss) before changes in working capital	6,976	-12,904
Change in receivables and retentions on construction contracts	-48,685	-24,648
Change in inventories	-16,420	-30,798
Change in provisions and liabilities under employee benefits	2,094	-1,105
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	-41,495	-12,605
Change in accrued expenses	-198	427
Income tax paid / tax refund	0	84
NET CASH FROM OPERATING ACTIVITIES	-97,728	-81,549
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	743	752
Purchase of property, plant and equipment and intangible assets	-14,386	-14,796
Sale / (purchase) of financial assets in related entities	-58	0
Cash payments to purchase debt instruments of other entities	0	-166,943
Cash from repurchase of debt instruments of other entities	0	216,028
Advanced loans	-3,247	-9
Repayment of granted loans	0	4
Dividends received	0	0
Interest received	216	102
Gain/loss on repurchase of debt instruments	0	272
NET CASH FROM INVESTING ACTIVITIES	-16,732	35,410
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	14,037	15,854
Repayment of loans and bank credits	-683	0
Decrease in finance lease liabilities	-6,321	-5,680
Interest paid	-465	-355
Other cash provided by / (used in) financing activities – dividends	0	-1
NET CASH FLOWS FROM FINANCING ACTIVITIES	6,568	9,818
TOTAL NET CASH FLOWS	-107,892	-36,321
Net foreign exchange gains / (losses)	33	-729
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	117,748	62,717
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	9,889	25,667

Notes to the condensed consolidated financial statements of the Group

1. General information

1.1. Composition of the Capital Group

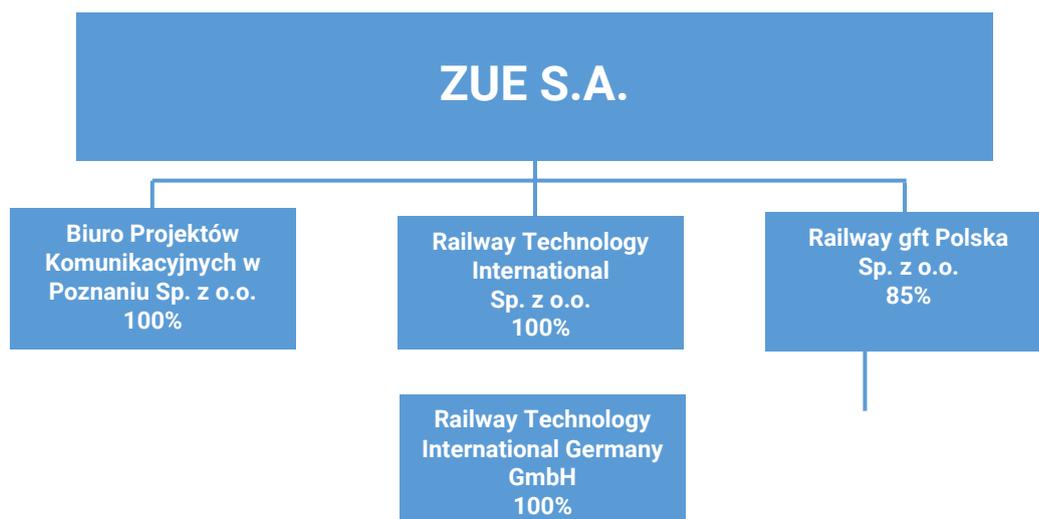
At the end of the reporting period, the Capital Group is composed of ZUE S.A. (parent company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o and Railway Technology International Germany GmbH (indirect subsidiary).

ZUE Spółka Akcyjna with registered office in Cracow (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 financial policy. In addition, ZUE's task is to create a uniform marketing policy of the Capital Group and to promote the Group's potential among its customers.

Structure of the Capital Group at 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, 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.

1.2. Consolidated companies

Consolidated companies at 30 June 2018:

Company	Registered office	Interests as at		Consolidation method
		30 June 2018	31 December 2017	
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 at 30 June 2018, it held a 100% and 70% interest, respectively, in these companies.

At 30 June 2018, ZUE held 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. was not consolidated as at 30 June 2018.

Railway Technology International Sp. z o.o. held 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 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 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.

1.4. 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, "Ypsilon" steel sleepers.

The operating segments' financial data has been presented in the note no. 4.7.12.

1.5. Functional and reporting currency

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

2. Operational information

2.1. 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.

By this report preparation date, no major events occurred other than the events described in detail in the note 2.2. below and section 10 of the Management Board Report.

2.2. Major events after 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 21 August 2018, the Company published preliminary financial results for 1H 2018. **(Current report 40/2018)**

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)**

2.3. 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.

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.

2.4. Unusual items influencing assets, liabilities, equity, net profit or cash flows

No unusual factors or events occurred in the reporting period.

2.5. 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 and the dates of putting contracts out for tender and awarding contracts. The number and size of tenders on the rail market are determined by the National Railway Programme and the EU perspective for the years 2018-2021. Projects on the urban market depend on the budgetary objectives of local self-governments.

Rail and urban 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.

3. Corporate information

3.1. 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).

3.2. Share capital structure

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

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

3.3. 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 transaction was described in detail in note no. 25 of the consolidated financial statements for the year ended 31 December 2015.

3.4. Shareholding structure

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

Shareholder	Number of shares/votes at 3 September 2018	% of share capital/total number of votes	Number of shares/votes at the publication of the last interim report ⁽¹⁾	% of share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
METLIFE OFE	1,400,000 ⁽²⁾	6.08	1,400,000 ⁽²⁾	6.08
PKO Bankowy OFE	1,500,000 ⁽³⁾	6.51	1,500,000 ⁽³⁾	6.51
NN Investment Partners TFI	1,190,437 ⁽⁴⁾	5.17	-	-
Other	4,539,326 ⁽⁵⁾	19.71	5,729,763 ⁽⁵⁾	24.88
Total	23,030,083	100	23,030,083	100

(1) Publication of the last interim report (Consolidated report for the first quarter of 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.

3.5. Shares and powers held by members of managing and supervisory bodies

Person	Position	Number of shares/votes at 3 September 2018	% of share capital/total number of votes	Changes in shareholding since the publication 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 publication of the last interim report or this report.

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

No events significant for the assessment of the Issuer's position occurred in the reporting period other than presented in this report.

3.7. Issue and redemption of debt and equity securities

No debt securities were issued or redeemed by any Group company in the reporting period. No equity securities were redeemed by any Group company in the reporting period.

3.8. Dividend

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 839 thousand to reserve funds. The Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations.

On 5 June 2018, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2017 as recommended by the Management Board of ZUE.

4. Financial information

4.1. Discussion of financial results

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.

** EBIT, EBITDA – measures not standardized under IFRS.

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 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 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%. (ZUE: PLN 876 thousand – a year-on-year decrease by 2%). See the note 4.3.5 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 for details.

Discussion of major balance sheet items

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	Change (compared to 31.12.2017)	Balance at 30-06-2018	Description
Assets			
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.
Liabilities			
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.

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
Cash and cash equivalents at the beginning of the period	117,748	62,717	116,144	61,207
Cash and cash equivalents at the end of the period	9,889	25,667	9,491	24,863

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.

	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 4.7.12.

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

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

4.3. Notes to the statement of comprehensive income

4.3.1. Revenue

	Period ended 30-06-2018	Period ended 30-06-2017
Revenue from construction contracts	288,043	103,122
Revenue from the rendering of services	5,749	486
Revenue from the sale of goods and raw materials	25,320	4,235
Total	319,112	107,843

The Group's revenue in the period from 1 January to 30 June 2018 amounted to PLN 319,112 thousand and increased by 196% over the analogous figure reported in the analogous period of 2017.

In the first half of 2018, the Group carried out works in the territory of Poland. In addition, ZUE generated revenue of PLN 198 thousand from the provision of equipment services.

4.3.2. Operating expenses

	Period ended 30-06-2018	Period ended 30-06-2017
Change in products	-1,012	-633
Depreciation and amortization	5,218	4,782
Consumption of raw and other materials	166,939	19,147
Contracted services	72,788	39,337
Costs of employee benefits	41,935	30,863
Taxes and charges	818	836
Other expenses	5,237	5,712
Value of goods and materials sold	25,509	23,977
Total	317,432	124,021

The increase in operating expenses was mainly influenced by the performance of the new contracts under the current EU perspective. The increase was seen, in particular, in the consumption of materials and the purchase of services provided by subcontractors in connection with the performed contracts.

	Period ended 30-06-2018	Period ended 30-06-2017
Cost of sales	306,981	113,662
General and administrative expenses	10,451	10,359
Total	317,432	124,021

The Group's general and administrative expenses between 1 January and 30 June 2018 stood at PLN 10,451 thousand and increased by 1% when compared with the Group's general and administrative expenses in the first half of 2017.

Depreciation and amortisation

	Period ended 30-06-2018	Period ended 30-06-2017
Depreciation of property, plant and equipment	4,802	4,312
Amortisation of intangible assets	248	301
Depreciation of investments in real property	168	169
Total	5,218	4,782

4.3.3. Other operating income

	Period ended 30-06-2018	Period ended 30-06-2017
Gain on disposal of assets	128	167
Gain on disposal of non-current assets	128	167
Other operating income	850	1,817
Damages and penalties	48	63
Release of write-downs on receivables	37	274
Refund of costs of court proceedings	585	78
Release of provisions for court cases	86	0
Release of write-downs on inventories	32	14
Release of write-downs on investment property	0	1,000
Other	62	388
Total	978	1,984

In order to make the financial statements clearer, the Group presents reinvoices and damages jointly (income and expenses according to their netted balance). The comparative data has been accordingly restated.

4.3.4. Other operating expenses

	Period ended 30-06-2018	Period ended 30-06-2017
Loss on disposal of assets	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses:	1,194	1,331
Donations	16	14
Damages and penalties	480	0
Write-downs on receivables	444	1 207
Costs of litigation	242	3
Write-downs on inventories	0	10
Other	12	97
Total	1,194	1,331

In order to make the financial statements clearer, the Group presents reinvoices and damages jointly (income and expenses according to their netted balance). The comparative data has been accordingly restated.

4.3.5. Financial income

	Period ended 30-06-2018	Period ended 30-06-2017
Interest income:	428	421
Interest on bank deposits	304	104
Interest on loans	48	5
Interest on receivables	76	312
Other financial income	358	287
Foreign exchange gains	3	0
Discount of long-term items	353	13
Realisation of financial instruments	0	272
Other	2	2

Total **786** **708**

4.3.6. Financial expenses

	Period ended 30-06-2018	Period ended 30-06-2017
Interest expenses	532	368
Interest on credits	120	136
Interest on loans	3	3
Interest on finance lease liabilities	85	130
Interest on liabilities relating to financing of property, plant and equipment	260	89
Interest on trade and other payables	64	10
Other financial expenses	197	2,313
Foreign exchange losses	81	797
Discount of long-term items	23	1,477
Write-down on investments in related entities	58	0
Other	35	39
Total	729	2,681

4.3.7. Corporate income tax

Corporate income tax recognised in the statement of comprehensive income

	Period ended 30-06-2018	Period ended 30-06-2017
Current income tax	0	-20
Deferred tax	309	-2,500
Total tax expense/income	309	-2,520

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 neither forms a tax capital group nor operates in a Special Economic Zone. Tax year and financial year coincide with the calendar year.

Income tax according to effective interest rate

	Period ended 30-06-2018	Period ended 30-06-2017
Gross profit (loss)	1,521	-17,498
Income tax at the applicable rate of 19%	289	-3,325
Effect of the tax recognition of:		
Use of tax losses brought forward	-3,414	52
	94	0
Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	10,981	4,923
Revenue not classified as revenue under tax regulations and taxable revenues that are not balance sheet revenue	14,301	4,871
Revaluation of deferred tax assets	3,125	3,273

Deferred tax	309	-2,500
Income tax adjustments	0	0
Income tax paid /(tax refund) on income earned abroad	0	-20
Income tax according to effective tax rate	309	-2,520
Effective tax rate	20%	14%

Current tax assets and liabilities

	Balance at 30-06-2018	Balance at 30-12-2017
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	0	0

Deferred tax

	Balance at 30-06-2018	Balance at 30-06-2017
Deferred tax balance at the beginning of the period	8,024	8,683
Temporary differences relating to deferred tax assets:	35,940	19,198
Provisions for expenses and accruals	14,471	8,730
Discount of receivables	355	520
Operating lease liabilities	1,436	104
Write-downs	1,513	1,626
Bonds and insurance settled in time	1,612	825
Tax work in progress	16,305	6,647
Valuation of long-term contracts	72	349
Other	176	397
Temporary differences relating to deferred tax liabilities:	39,006	18,723
Valuation of long-term contracts	28,182	8,952
Property, plant and equipment and intangible assets	10,329	9,143
Discount of payables	483	362
Other	12	266
Unused tax losses and other tax credits to be settled in future:	10,782	10,720
Tax losses	10,782	10,720
Total temporary differences relating to deferred tax assets:	46,722	29,918
Total temporary differences relating to deferred tax liabilities:	39,006	18,723
Deferred tax balance at the end of the period	7,716	11,195
Change in deferred tax, including:	-308	2,512
- recognised in income	-309	2,500
- recognised in equity	1	12

Deferred tax recognised in equity is a result of calculating tax on actuarial gains/losses presented in comprehensive income.

4.4. Contracts, retentions and provisions

4.4.1. Construction contracts

The following details relate to long-term construction contracts performed by the Group.

	Period ended 30-06-2018	Period ended 30-06-2017
Revenue from long-term construction contracts	276,998	95,305
Costs of long-term construction contracts	266,079	96,995
Gross profit (loss) on long-term contracts	10,919	-1,690
	Balance at 30-06-2018	Balance at 31-12-2017
Assets (selected items)	172,070	98,878
- Valuation of long-term construction contracts	148,327	74,208
- Advance payments for contracts	13,126	10,256
- Retentions on construction contracts retained by customers	10,617	14,414
Liabilities (selected items)	137,188	132,898
- Valuation of contracts	380	724
- Provisions for contract costs	53,309	34,923
- Advance payments for contracts	60,954	75,128
- Retentions on construction contracts retained for suppliers	12,872	13,049
- Provisions for warranty claims	9,323	8,458
- Provisions on expected losses on contracts	350	616

Receivables from contracts increased mainly as a result of greater progress of works.

Provisions for contract costs are included in accruals.

4.4.2. Retentions on construction contracts

	Balance at 30-06-2018	Balance at 31-12-2017
Retained by customers – to be repaid after 12 months	10,065	9,696
Retained by customers – to be repaid within 12 months	552	4,718
Total retentions on construction contracts retained by customers	10,617	14,414
Retained for suppliers – to be repaid after 12 months	6,710	6,254
Retained for suppliers – to be repaid within 12 months	6,162	6,795
Total retentions on construction contracts retained for suppliers	12,872	13,049

The construction contracts and work-for-hire contracts entered into by the Group provide for an obligation to provide performance bonds and defects liability bonds in the form of deposits or bonds issued by banks or insurance companies. If the term of a bond provided by a bank is longer than 37 months, the bank establishes additional security in the form of cash deposit.

Cash deposits changed at the end of the first half of 2018 after the amount had been returned by the Bank following the expiry of the deposit term.

4.4.3. Provisions

Change in provisions

Provisions	01-01-2018	Created	Used	Released	Reclassified	30-06-2018	Item
Long-term provisions:	7,644	1,402	54	101	-464	8,427	
Provisions for employee benefits	1,888	50	0	0	0	1,938	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,756	1,352	54	101	-464	6,489	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	14,426	7,473	7,462	797	464	14,104	
Provisions for employee benefits	10,892	7,340	7,200	240	0	10,792	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,702	0	243	89	464	2,834	Short-term provisions
Provision for loss on contracts	616	116	0	382	0	350	Short-term provisions
Other provisions	216	17	19	86	0	128	Short-term provisions
Total provisions:	22,070	8,875	7,516	898	0	22,531	

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

Provisions for employee benefits include the provisions for leaves, bonuses, overtime work and retirement or pension gratuities. The provisions decreased mainly as a result of the payment of contract bonuses and annual bonuses, and the use of leaves.

Liabilities under employee benefits (long-term) include long-term liabilities relating to the company social benefit fund.

Provision for a loss on contracts is created if the budgeted expenses are higher than the total revenue under a contract.

4.5. Trade and other receivables and payables

4.5.1. Trade and other receivables

	Balance at 30-06-2018	Balance at 31-12-2017
Trade receivables	98,234	116,820
Write-downs on trade receivables	-14,587	-13,893
Receivables from the state budget other than corporate income tax	92	438
Advance payments	13,126	10,256

Other receivables	4,501	4,319
Total trade and other receivables	101,366	117,940

The Group receives advance payments from Investors (see Liabilities) and transfers them also to subcontractors to ensure timely performance of construction contracts.

Other receivables include the security created in connection with the financing agreement of PLN 4,000 thousand.

Change in write-downs on trade receivables influencing the profit or loss includes the release of write-downs of PLN 37 thousand and the creation of write-downs of PLN 444 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by the Group for penalties and damages that are not the Company's revenue at the moment of issue.

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

	Balance at 30-06-2018
Counterparty A	55,108
Total	55,108

The concentration of credit risk is limited due to high creditworthiness of the abovementioned counterparty assessed, *inter alia*, by analysing their financial standing and the fact that they meet additional requirements for settling EU funds. The Group has performed construction contracts for the Counterparty A for many years. The Counterparty A is co-owned by the State Treasury as a result of which their creditworthiness is increased. Accordingly, the Management Board of the Company believe there is no need to create additional allowances.

4.5.2. Trade and other payables

	Balance at 30-06-2018	Balance at 31-12-2017
Trade payables	62,491	96,216
Payables to the state budget other than corporate income tax	5,250	16,965
Accruals	53,666	35,110
Other payables	50	143
Advance payments	60,954	75,128
Total trade and other payables	182,411	223,562

The items include:

- Accruals – provisions for the costs of subcontractors and provisions for the risks relating to the settlement of contracts;
- Advance payments – prepayments received by ZUE on the basis of contracts with PKP PLK. Under the said contracts, ZUE received advance payments to perform construction contracts.

4.6. Debt and management of capital and liquidity

4.6.1. Loans and bank credits and other financing sources

	Balance at 30-06-2018	Balance at 31-12-2017
Long-term	18,863	11,224
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	15,235	7,714
Finance lease liabilities	3,628	3,510
Short-term	21,794	14,908
Bank credits	7,380	5,851
Received loans	253	250
Liabilities relating to financing of property, plant and equipment	11,570	6,680
Finance lease liabilities	2,591	2,127
Total	40,657	26,132

Liabilities relating to the financing of property, plant and equipment include leasebacks. In the first half of 2018, the Group signed the agreements for the purchase of piling station of PLN 3,326 thousand, wagons of PLN 8,510 thousand and two-way rail welding machine of PLN 5,483 thousand. For presentation purposes, leaseback has been named the agreement for financing of property, plant and equipment.

Summary of credit agreements

No.	Bank	Description	Principal/limit according to the agreement	Use as at 30.06.2018	Interest	Repayment date
1	(ii)	Overdraft	10,000	0	O/N WIBOR + margin	10-05-2019
2	mBank S.A.	Cooperation agreement including: sublimit for bonds sublimit for working credit facilities	50,000 50,000 30,000	23 23 0	3M WIBOR + margin	17-07-2020
3	BGŻ BNP PARIBAS (i)	Multipurpose credit line agreement including: sublimit for bonds sublimit for working credit facilities	170,000 170,000 20,000	71,617 71,617 0	1M WIBOR + margin	26-10-2018
4	PEKAO SA (i)	Multipurpose credit limit agreement including: sublimit for bonds sublimit for working credit facilities	100,000 100,000 20,000	84,806 84,806 0	1M WIBOR + margin	30-11-2018
5	BGŻ BNP	Multipurpose credit	300	0	1M WIBOR +	24-09-2018

	Paribas S.A. (v)	line			margin	
6	mBank S.A. (iv)	Overdraft	500	498	O/N WIBOR + margin	07-06-2019
7	BGŻ BNP Paribas S.A. (vi)	Non-revolving credit	300	169	1M WIBOR + margin	30-07-2018
8	mBank S.A.	Non-revolving credit	2,000	113	1M WIBOR + margin	25-11-2019
9	mBank S.A.	Revolving credit	5,000	5,000	1M WIBOR + margin	23-08-2019
10	BGŻ BNP Paribas S.A. (v)	Revolving credit agreement	3,000	1,600	3M WIBOR + margin	08-09-2018
Total use of credits at the Group			7,380			
Total use of bonds at the Group			156,446			

(i) ZUE may use the available credit limit for bank guarantees.

(ii) Annex of 9 May 2018 whereby the limit was raised to PLN 10,000 thousand.

(iii) New agreement of 26 April 2018.

(iv) Annex of 5 June 2018 whereby the limit was raised to PLN 500 thousand.

(v) Extension of credit repayment date.

(vi) Credit repaid on 30 July 2018.

Security and liabilities relating to concluded credit agreements:

- Overdraft** – security: bill of exchange;
- Cooperation agreement** – security: mortgage, deposit;
- Multipurpose credit line agreement** – security: bill of exchange, cash deposit for the bonds expiring after 37 months; security deposit of PLN 4,000 thousand, registered pledge on non-current assets owned by the Borrower; assignment of rights under policy;
- Multipurpose credit limit agreement** – security: assignment of claims; registered pledge on non-current assets owned by the Borrower; assignment of rights under policy; cash deposit for the bonds expiring after 37 months;
- Multipurpose credit line** – security: blank bill of exchange; Borrower's statement about submission to enforcement;
- Overdraft** – security: blank bill of exchange; ZUE's guarantees;
- Working credit facility for contract prefinancing** – security: blank bill of exchange; assignment of claims; ZUE's guarantees;
- Non-revolving credit** – security: blank bill of exchange; ZUE's guarantees;
- Working credit facility** – security: ZUE's guarantees; registered pledge on inventories owned by Railway gft; blank bill of exchange; statement about submission to enforcement; assignment of rights under insurance policy;
- Revolving credit** – security: blank bill of exchange issued by Railway gft with declaration; blank bill of exchange issued by ZUE with declaration; statement by Railway gft about submission to enforcement.

The following changes were made to the Group's credit agreements in the reporting period:

- mBank – Overdraft – Annex of 9 May 2018 whereby the limit was raised by PLN 5,000 thousand.
- mBank – Overdraft – Annex of 5 June 2018 whereby the limit was raised by PLN 200 thousand.
- mBank – Working credit facility for contract prefinancing of PLN 2,000 thousand to be repaid by 15 May 2018. The credit was repaid before this date on 18 January 2018.
- mBank – Working credit facility for contract prefinancing of PLN 2,000 thousand to be repaid by 25 November 2019, the agreement was signed on 26 April 2018 and replaced the credit repaid on 18 January 2018.
- BGŻ BNP Paribas S.A. – Non-revolving credit – Annex of 22 May 2018 whereby the repayment date was extended until 30 July 2018. The credit was repaid by this date.

4.6.2. Capital management

The Group reviews the capital structure each time for the purpose of major contract financing. As part of this review, the Group analyses own resources required for day-to-day operations, the schedule of contract financing, the cost of capital and the risks associated with each class of capital.

	Balance at 30-06-2018	Balance at 31-12-2017
Long- and short-term loans and bank credits and other financing sources	40,657	26,132
Long- and short-term other financial liabilities	526	666
	41,183	26,798
Cash and cash equivalents	9,889	117,748
Net debt	31,294	-90,950
Equity	210,628	209,419
Net debt to equity ratio	14.86%	-43.43%

The Group's long- and short-term debt mainly includes liabilities under leases for the purchase of non-current assets and liabilities relating to the financing of property, plant and equipment (leaseback) and current use of credits by subsidiaries.

The Group disclosed positive net debt because the amount of debt at the end of H1 2018 was greater than the Group's cash reported by the Group for the same period. The Group mainly uses own funds (especially ZUE's funds) and credit limits to finance day-to-day operations.

4.6.3. Cash and cash equivalents

	Balance at 30-06-2018	Balance at 31-12-2017
Cash on hand and at banks	9,889	106,748
Bank deposits up to three months	0	11,000
Total	9,889	117,748

Cash decreased at the end of the first half of 2018 because the Group used it to conduct operating activities.

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.

	Period ended 30-06-2018	Period ended 30-06-2017
Cash flows from operating activities	-97,728	-81,549
Cash flows from investing activities	-16,732	35,410
Cash flows from financing activities	6,568	9,818
Total net cash flows	-107,892	-36,321
Cash and cash equivalents at the beginning of the period	117,748	62,717

Cash and cash equivalents at the end of the period	9,889	25,667
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4.7. Notes to the financial statements

4.7.1. Property, plant and equipment

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 2018	0	26,162	46,839	67,387	2,271	142,659	3,202	3,705	149,566
Additions		0	0	4,419	17,922	0	22,341	10,548	945	33,834
Presentation adjustment		0	11	0	-11	0	0	0	0	0
Transfer to non-current assets		0	0	0	0	0	0	12,844	4,650	17,494
Sale/liquidation		0	0	1,527	839	65	2,431	0	0	2,431
Balance at	30 June 2018	0	26,173	49,731	84,459	2,206	162,569	906	0	163,475
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 2018	0	7,768	21,513	23,408	1,854	54,543	0	0	54,543
Elimination on disposal of assets		0	0	1,102	693	65	1,860	0	0	1,860
Depreciation expense		0	475	1,581	2,678	68	4,802	0	0	4,802
Balance at	30 June 2018	0	8,243	21,992	25,393	1,857	57,485	0	0	57,485
Carrying amount										
Balance at	1 January 2018	0	18,394	25,326	43,979	417	88,116	3,202	3,705	95,023
Balance at	30 June 2018	0	17,930	27,739	59,066	349	105,084	906	0	105,990

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

Assets pledged as security

Note 4.7.10 deals with property, plant and equipment used to secure the agreements with banks. The Group's liabilities under finance lease and liabilities arising from the financing of property, plant and equipment (note 4.6.1) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

4.7.2. Investment property

Gross value		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	1 January 2018	126	4,251	4,582	0	0	0	8,959
Additions		0	0	11	0	0	0	11
Impairment		0	0	0	0	0	0	0
Sale/liquidation		0	0	0	0	0	0	0
Balance at	30 June 2018	126	4,251	4,593	0	0	0	8,970

Depreciation		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	1 January 2018	0	1,490	1,878	0	0	0	3,368
Elimination on disposal of assets		0	0	0	0	0	0	0
Depreciation expense		0	83	85	0	0	0	168
Balance at	30 June 2018	0	1,573	1,963	0	0	0	3,536
Carrying amount								

Balance at	1 January 2018	126	2,761	2,704	0	0	0	5,591
Balance at	30 June 2018	126	2,678	2,630	0	0	0	5,434

At 30 June 2018, investment property included the real property in Kościelisko (plots no. 2001 and 2491). The investment property includes land with buildings erected thereon and leasehold estate.

The Group's investment property is the leasehold estate owned by the Group.

No impairment losses were released by the Group in the reporting period. The total value of investment property impairment losses recognised in previous years is PLN 1,770 thousand.

The investment property was measured at purchase price less impairment losses. The Group did not derive any income from the lease of investment property in 2017 or 2018.

4.7.3. Goodwill

The goodwill of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. (PRK) 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 PRK is assigned in full to the construction segment.

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.

At cost	Balance at 30-06-2018	Balance at 31-12-2017
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

Goodwill impairment test

The test was carried out using the FCFF approach in a four-year time horizon. According to the Company's principles, the recoverable amount of an asset generating funds was measured at use value.

The recoverable amount was determined using the discounted future cash flows method. The rate of average weighted cost of capital including projected structure and the cost of financing, and the market risks was at 10%.

After it had considered external circumstances influencing a long-term market capitalization of the Group below the carrying amount, the Company carried out a test for the impairment of the Group's assets as at 30 June 2018.

The impairment tests carried out at 30 June 2018 according to *IAS 36 Impairment of Assets* revealed no risks to the loss of the carrying amount of the Group's assets.

Sensitivity to changes in assumptions

If the useful value of an asset generating cash is estimated, the management personnel is convinced that no reasonably possible change to any key assumption will cause the carrying amount of the said asset to substantially exceed its recoverable value.

4.7.4. Investments in non-current assets

The total capital expenditure incurred by the Group in the reporting period amounted to PLN 16,383 thousand.

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

Item:	Own funds	Finance lease	Leaseback	Total
Intangible assets, including:	32	0	0	32
- leasehold land	0	0	0	0
Property, plant and equipment, including:	-2,834	1,855	17,319	16,340
- buildings and structures	0	0	0	0
- plant and equipment	4,419	0	3,326	7,745
- vehicles	16,387	1,535	13,993	31,915

- other	0	0	0	0
- non-current assets under construction	10,228	320	0	10,548
- settlement of non-current assets under construction for ongoing investments	-12,844	0	0	-12,844
- leaseback	-17,319	0	0	-17,319
- current advance payments	945	0	0	945
- settlement of advance payment from prior period for ongoing investments	-4,650	0	0	-4,650
Investment property	11	0	0	11
Equity investments	0	0	0	0
Total investments	-2,791	1,855	17,319	16,383

Major investments in property, plant and equipment made by the Group in the first half of 2018 included:

- Purchase of EAOS wagons worth PLN 4,575 thousand (leaseback).
- Purchase of Smpms wagons worth PLN 3,935 thousand (leaseback).
- Complete overhauls of machines and vehicles – PLN 2,916 thousand.
- Purchase of cars – PLN 1,645 thousand (lease).
- Purchase of pile driver – PLN 3,326 thousand (leaseback).
- Purchase of two-way rail welding machine – PLN 5,483 thousand (leaseback).
- Purchase of wrenches – PLN 177 thousand.
- Purchase of storage containers – PLN 44 thousand.
- Purchase of hardware – PLN 45 thousand.

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

The pile driver, wagons and two-way rail welding machine were initially financed by own resources.

The amount recognized in the statement of cash flows is the purchase of PLN 14,386 thousand. The difference is a result of actual payments, leases and the settlements of advance payments and non-current assets under construction.

4.7.5. Advanced loans

	Balance at 30-06-2018	Balance at 31-12-2017
Loans advanced to related entities	79	66
Loans advanced to other entities	3,540	279
Impairment losses	-351	-335
Total	3,268	10

Advanced loans include principal and interest charged at the end of the reporting period. In the first half of 2018, the Group advanced the loan of PLN 3,200 thousand to a counterparty.

4.7.6. Inventories

	Balance at 30-06-2018	Balance at 31-12-2017
Goods, materials and raw materials	42,743	27,405
Work in progress	1,416	334
Finished goods	199	199
Total	44,358	27,938

Inventories increased because they were gathered for the purpose of performing the new and the existing contracts. The purchase of strategic materials such as aggregate, sleepers, rails or railway switches is secured by the conclusion of long-term master agreements. The abovementioned materials are purchased to reduce the risk of price increase in times of limited supply caused by the accumulation of railway works.

4.7.7. Financial instruments

The following table sets out the carrying amounts of the Group's financial instruments with a breakdown into particular classes and categories of assets and liabilities.

Balance at 30 June 2018

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through:		Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
		Profit or loss	Other comprehensive income		
Retentions on construction contracts (before discount)	10,994	0	0	0	13,941
Trade receivables	98,234	0	0	0	0
Receivables from the state budget other than corporate income tax	92	0	0	0	0
Other financial liabilities	0	0	0	0	526
Advanced loans	3,268	0	0	0	0
Cash and cash equivalents	9,889	0	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	40,657
Trade payables	0	0	0	0	62,491
Total	122,477	0	0	0	117,615

Financial instruments were classified by the Group in the reporting period according to IFRS 9 effective since 1 January 2018.

4.7.8. Transactions with related entities

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

	Receivables		Payables	
	Balance at		Balance at	
	30-06-2018	31-12-2017	30-06-2018	31-12-2017
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	
	30-06-2018	30-06-2017	30-06-2018	30-06-2017
RTI	2	2	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	468
Total	2	2	0	468

	Advanced loans		Financial income (interest)	
	Balance at		Period ended	
	30-06-2018	31-12-2017	30-06-2018	30-06-2017
RTI	20	10	0	0
RTI Germany	59	56	1	0
Wiesław Nowak	0	0	0	0
Total	79	66	1	0

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

In the reporting period, RTI leased business establishments from ZUE on the basis of the lease signed on 31 December 2015.

On 10 April 2018, Wiesław Nowak and ZUE entered into the sales agreement whereby Wiesław Nowak sold his shares in RTI for PLN 58 thousand.

On 13 April 2018, ZUE and RTI signed a loan agreement whereby RTI was granted a special-purpose loan of PLN 10 thousand to be repaid by 20 December 2018. The loan was disbursed on 20 April 2018.

On 19 June 2018, ZUE and RTI Germany signed an annex no. 3 to the loan agreement of 31 May 2016 whereby the loan and interest repayment date was extended until 20 June 2019.

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 said guarantees at 30 June 2018 amounted to PLN 18,505 thousand. ZUE is remunerated for the provision of the said guarantees.

4.7.9. Proceedings before court or arbitration or public administration authority at the date of preparation of this report

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 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.

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

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

On 30 December 2016, the consortium of:

- 1) OHL ŹS, 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.

4.7.10. Contingent assets and contingent liabilities

Contingent assets

	Balance at 30-06-2018	Balance at 31-12-2017
Bonds	48,537	36,949
Guarantees	55	54
Bills of exchange	13,219	5,066
Total	61,811	42,069

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 repayment of received advances. The supply of machines is secured by bills of exchange.

Contingent liabilities

	As at 30-06-2018	As at 31-12-2017
Bonds	552,205	485,785
Guarantees	18,505	17,044
Bills of exchange	351,333	339,382
Mortgages	54,259	54,259
Pledges	18,299	17,048
Total	994,601	913,518

Contingent liabilities in the form of bonds for the benefit of other entities 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 in connection with construction contracts and sales agreements. Insurance companies and banks have recourse against the Group.

Contingent liabilities in the form of guarantees secure the bonds and credits provided to the Group companies by banks and insurance companies and guaranteed by the Parent Company.

The liabilities to banks and strategic clients are secured by bills of exchange.

Mortgages are additional security for the credit agreements with mBank SA and the insurance agreement with PZU SA.

Registered pledges were established in connection with the annexes to agreements between ZUE and BGŻ BNP PARIBAS and PEKAO whereby limits had been raised. The pledged assets include wagons, pile driver and maintenance train. In addition, a registered pledge was created in connection with the loan agreement between mBank and one of the subsidiaries. The pledge was established over inventories.

4.7.11. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the six months ended 30 June 2018 or the six months ended 30 June 2017.

4.7.12. Operating segments

The Group's reporting is based on operating segments. Given the development of design and sales activities, the Management Board of ZUE 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.

The segments jointly meet the following rules:

- 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.

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

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

The 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. Like transactions with third parties, sales and transfer transactions between segments are settled by the Group based on current market prices.

Reporting segments results for the first half of 2018:

	Construction	Sales	Design	Exclusions	Total
Revenue	289,797	27,629	7,038	-5,352	319,112
including:					
Inter-segment revenues	272	2,701	4,103	-7,076	0
Revenue from external customers,	289,525	24,928	2,935	1,724	319,112
including:					
Revenue from construction	283,655	0	7,038	-2,650	288,043
contracts					
Revenue from the rendering of	5,604	145	0	0	5,749
services					
Revenue from the sale of goods	538	27,484	0	-2,702	25,320
and raw materials					
Gross profit	9,869	1,491	1,081	-310	12,131
Financial income / expenses	445	-312	-94	18	57
Interest received	216	0	0	0	216
Interest paid	-344	-116	-5	0	-465
Pre-tax profit	1,609	236	-36	-288	1,521
Corporate income tax	373	-9	0	-55	309
Net profit	1,236	245	-36	-233	1,212
Depreciation and amortisation	5,134	2	86	-4	5,218
Property, plant and equipment	103,069	4	141	2,776	105,990
Non-current assets	168,754	180	786	-500	169,220
Total assets	452,756	17,104	16,395	-7,984	478,271
Total liabilities	241,157	17,158	16,217	-6,889	267,643

In the first half of 2018, the Group operated in the territory of Poland. In addition, ZUE earned revenue of PLN 198 thousand from the provision of equipment services in Slovakia.

Reporting segments results for the first half of 2017:

	Construction	Sales	Design	Exclusions	Total
Revenue	100,095	27,564	5,726	-25,542	107,843
including:					
Inter-segment revenues	225	23,669	1,457	-25,351	0
Revenue from external customers,	99,870	3,895	4,269	-191	107,843
including:					
Revenue from construction contracts	97,587	0	5,726	-191	103,122
Revenue from the rendering of services	2,088	220	0	-1,822	486
Revenue from the sale of goods and raw materials	420	27,344	0	-23,529	4,235
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
Total liabilities	102,838	13,605	9,907	-5,726	120,624

In the first half of 2017, the Group operated in the territory of Poland.

Concentration of revenues that exceed 10% of total revenue:

	Balance at 30-06-2018
Counterparty A	159,502

4.8. Other notes to the financial statements

4.8.1. 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 2018 as endorsed by the European Union (EU).

The half-yearly consolidated financial statements for the six months ended 30 June 2018 have been prepared according to 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.

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

The following amendments to the existing standards published by the International Accounting Standards Board (IASB) and approved for use in the European Union come into force in 2018:

- **IFRS 9 "Financial Instruments"** – endorsed 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" – endorsed in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts"** – Use of **IFRS 9 "Financial Instruments"** in conjunction with **IFRS 4 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2018 or the moment IFRS 9 "Financial Instruments" are used for the first time);

- **Clarifications to IFRS 15 “Revenue from Contracts with Customers”** (effective for annual periods beginning on or after 1 January 2018);
- **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 IAS 28 “Investments in Associates and Joint Ventures”** – a part of “**Amendments Resulting from Review of IFRS 2014-2016**” (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 1 “Use of International Financial Reporting Standards for the first time”** – a part of “**Amendments Resulting from Review of IFRS 2014-2016**” (effective for annual periods beginning on or after 1 January 2018);
- **Interpretation of IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).

Standards and interpretations published by the EU but not yet effective

Upon the approval of these financial statements, the following new standards and amendments to the standards were published by the IASB and approved for use in the EU but did not come into force:

- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IFRS 9 “Financial Instruments”** – “Prepayment Features with Negative Compensation” (effective for annual periods beginning on or after 1 January 2019).

Standards and interpretations adopted by the IASB but not yet endorsed 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) excluding the following new standards and amendments to the standards not yet approved for use in the EU at the date of preparation of this report:

- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”** (the effective date has been deferred by the IASB indefinitely);
- **Amendments Resulting from Review of IFRS 2015-2017** (effective for annual periods beginning on or after 1 January 2019);
- **Interpretation of IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019);
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016).

The new or amended standards or interpretations used for the first time in 2018 do not have any material influence on the interim financial statements. The influence of IFRS 15 and IFRS 9 on the accounting policy has been discussed by the Group in the note 4.8.2.

IFRS 16 “Leases” is being analysed in detail by the Group. Note 8.1.5 of the consolidated financial statements for the year ended 31 December 2017 contains a detailed description of the standard.

4.8.2. Important accounting principles

Going concern

The half-yearly condensed financial statements of the Group have been prepared assuming that the companies within the Group will continue in operational existence for at least 12 months after the end of the reporting period; i.e. after 30 June 2018.

The most important factor influencing the Group's ability to continue in operational existence is the financial standing of ZUE, the parent company.

The key factors with an impact on the Group's ability to continue its activities include liquidity, proper backlog and market situation.

The following facts should be taken into account when analysing the financial position of the Group: In the six months ended 30 June 2018, the Group recognised sales revenue of PLN 319m and net profit of PLN 1m. In addition, the Group reported net current assets of PLN 76m, including cash of PLN 9m. There is PLN 2,245m in the Group's portfolio.

The Management Board of ZUE have analysed cash flow projections. The analysis has revealed positive cash flows in subsequent months enabling the Group to continue its operations within the same scope.

The Management Board of ZUE confirm that profit or loss has been recognised on the basis of budgets of the contracts included by the Company in its backlog. The budgets have been prepared taking into account such factors as the price of materials, services and labour at the date of preparation of the financial statements, labour costs relating to the terms of employment applicable at the date of preparation of the financial statements, technical and technological assumptions relating to the performance of contracts, obtaining any necessary administrative decisions (including consents) by the dates specified in contract schedules, site handovers, track closures and other means of access gained by the specified dates and within the specified scopes, solvency and proper contract performance by the key business partners. The business activity conducted by the Company inherently involves risks (including the risks likely to follow from the abovementioned factors) whose occurrence is unpredictable. The Management Board identify and discuss the risks associated with the Company's activities in their reports.

Based on the sales volume and profit or loss reported in H1 2018, which have increased over the analogous figures disclosed at the end of H1 2017, as well as the structure of the Parent Company's net current assets, its cash, backlog and projected cash flows, the Management Board of ZUE state that there are no significant going concern risks at the end of the reporting period. Accordingly, these interim condensed financial statements have been prepared assuming that the Group will continue in operational existence for the foreseeable future.

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 the current and comparative period.

Comparability of financial information

No changes in the presentation of financial information have been made in the comparative periods, except for the following changes:

In these financial statements and the comparative information, the Group presented the item named: "Measurement of long-term construction contracts" and made the following annotation:

- Included in assets are the amounts due and receivable from customers (contracting authorities) in connection with all construction work in progress in respect of which the recognised revenue exceeds the amounts due under partial invoices;
- Included in liabilities are the amounts due and payable to suppliers under all construction work in progress in respect of which the amounts invoiced for the work performed under the contract exceed the recognised revenue.

Previously the Group recognised receivables under contracts (measurement) under Trade and other receivables and payables under contracts (measurement) under Trade payables.

The table below presents the influence of changes on the consolidated statement of financial position:

Effect change	Restated	Approved	
	Balance at 31-12-2017	Balance at 31-12-2017	of
ASSETS			
Non-current assets			
Total non-current assets	158,593	158,593	0
Current assets			
Trade and other receivables	117,940	192,148	-74,208
Valuation of long-term construction contracts	74,208	0	74,208
Total current assets	343,659	343,659	0
Total assets	502,252	502,252	0
LIABILITIES			
Equity			
Total equity attributable to shareholders of the parent company	209,510	209,510	0
Total equity attributable to non-controlling interests	-91	-91	0
Total equity	209,419	209,419	0
Non-current liabilities			
Total non-current liabilities	25,472	25,472	0
Current liabilities			
Trade and other payables	223,562	224,286	-724
Valuation of long-term construction contracts	724	0	724
Total current liabilities	267,361	267,361	0
Total liabilities	292,833	292,833	0
Total equity and liabilities	502,252	502,252	0

Applied accounting principles

Except for the following changes, these half-yearly consolidated financial statements for the six months ended 30 June 2018 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 2017. The financial statements for the financial year ended 31 December 2017 contain a detailed description of the accounting principles applied 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.

Changes in accounting principles and preparation of financial statements

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 has been applied by the Group since 1 January 2018 and superseded IAS 11 "Construction Contracts" and IAS 18 "Revenue." The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of goods or services to customers (contracting authorities) in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

Revenue from construction contracts

A five-step model is applied under IFRS 15 to the recognition of revenue:

1. Identification of the contract with a customer.
2. Identification of performance obligations.
3. Determination of transaction price.
4. Allocation of the price to the performance obligations.
5. Recognition of revenue.

Since 1 January 2018, the Group has recognised revenue from unfinished construction service according to the five-step model and it has used an input method in compliance with a modified retrospective approach. Given the nature of the Group's operations, the categories of revenue earned by the Group and the provisions of contracts with customers, a retrospective use of IFRS 15 has not influenced the amount of the Company's equity at the date of initial implementation of IFRS 15; i.e. 1 January 2018.

Input method

Input method uses expenditures (costs) incurred by the Group relative to total estimated expenditures (costs) to determine the extent of progress toward completion.

Zero-profit method

If the Group is not able to reasonably measure the outcome of a performance obligation but expects to recover the costs incurred in satisfying the performance obligation, the Group applies a zero-profit method and recognises revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

Recognition of expected losses

When it is probable that total contract costs will exceed total contract revenue, a loss provision is recognised by the Group according to IAS 37.

Practical use of progress measurement methods

An input method has been selected on the basis of the Company's operations.

Individual contract measurement stages:

- a) Determination of a change in contract status – contracts in progress and completed contracts;
- b) Determination of planned revenue adjustments;
- c) Update of revenue budget (twice a year);
- d) Update of cost budget (twice a year);
- e) Calculation of invoiced revenue;
- f) Calculation of direct and indirect costs incurred in connection with the performance of construction contracts;
- g) Calculation of general construction costs incurred (entity's general costs and general construction costs);
- h) Measurement of progress toward completion under a contract and recognition of revenue with an input method; and
- i) Measurement of Payables and Receivables where invoices for construction services contain prices lower or higher than agreed.

In the input method, the percentage of completion is defined as the ratio of actual costs to estimated (budgeted) costs required to perform the contract. Contract budgets are prepared for each construction contract. Budgets are updated twice a year on the basis of April- and October-end closings. The stage of completion of a contract is determined on the basis of contract budgets by calculating the ratio of the costs actually incurred for the work performed to date to the estimated total costs of the contract. Contracts, which have been signed but do not have approved budgets, are measured with a zero-profit method.

Presentation in the statements

Included in assets "Measurement of long-term construction contracts" are the amounts due and receivable from customers (contracting authorities) in connection with all construction work in progress in respect of which recognised revenue exceeds the amounts due and payable under partial invoices.

Included in liabilities "Measurement of long-term construction contracts" are the amounts due and payable to suppliers in connection with all construction work in progress in respect of which the amounts invoiced for the work performed under the contract exceed recognised revenue.

The note Construction contracts includes financial information about long-term contracts measured with an input method.

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments," which replaces IAS 39 "Financial Instruments – Recognition and Measurement," has been applied by the Group since 1 January 2018.

IFRS 9 includes amended guidance for the classification and measurement of financial assets, impairment and hedging.

The standard has been applied by the Group retrospectively without the restatement of comparative information.

Classification and measurement

The classification of financial assets depends on the entity's business model for managing its financial assets and the contractual cash flows of the financial assets.

The financial asset can be measured at amortized cost if both criteria are met:

- a) The financial asset is held in a business model whose objective is to hold financial assets to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise to cash flows at specified dates that are solely payments of principal and interest on the principal amounts outstanding.

The financial asset is measured at fair value through other comprehensive income if both criteria are met:

- a) The financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b) The contractual terms of the financial asset give rise to cash flows at specified dates that are solely payments of principal and interest on the principal amounts outstanding.

The financial asset is measured at fair value through profit or loss, unless it is measured at amortized cost or at fair value through other comprehensive income.

The Group's financial assets measured at amortized cost include:

- Trade receivables;
- Deposits relating to supplies and services;
- Advanced loans; and
- Cash and cash equivalents.

The table below sets out changes in the classification of financial assets resulting from the implementation of IFRS 9:

Financial assets	Categories of financial assets	
	IAS 39	IFRS 9
Retentions on construction contracts (before discount)	Loans and receivables	
Trade receivables	Loans and receivables	Measured at amortised cost
Advanced loans	Loans and receivables	
Cash and cash equivalents	Measured at fair value through profit or loss	

Under IFRS 9 financial instruments are initially measured at fair value. The fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration paid or received). Given a diverse range of financial instruments as a result of the classification, in the case of a financial asset or financial liability not at fair value through profit or loss, the initial value includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Trade receivables under IFRS 15 without a significant financing component (i.e. the measurement of long-term construction contracts) are initially recognised at their transaction price.

Most of the requirements under IAS 39 relating to the classification and measurement of financial liabilities have been carried over unchanged to IFRS 9.

Impairment

IFRS 9 introduces new impairment requirements – the expected credit loss model. Unlike the model applied under IAS 39 according to which credit losses are recognised once there has been an incurred loss event, the expected credit loss model is based on the calculation of expected losses. The expected credit losses are weighted by the probability that the obligation will not be performed.

According to the new rules governing the impairment of financial assets, the Group is obliged to recognise impairment losses on the basis expected credit losses likely to occur over the life of an instrument and if the credit risk relating to the instrument does not significantly increase at the end of the reporting period, a loss allowance is measured by the Group at an amount equal to 12-month expected credit losses.

Trade receivables are the most important item of the Company's financial statements governed by the rules of calculating the expected credit losses.

The Group has applied a simplified model of recognising impairment losses for trade receivables according to which the expected losses over the lifetime of a financial asset are measured based on the age of past-due receivables. The analysis has been carried out on the basis of historical data.

In the case of trade receivables under IFRS 15 (i.e. the measurement of long-term construction contracts), an allowance is measured by the Group at an amount of expected credit losses for the entire expected lifetime of the financial asset.

The new impairment model introduced by the Group has not resulted in any change in the amount of write-downs of the Company's receivables at 1 January 2018 when compared with the amount following from the policy previously applied by the Group.

Hedge accounting

No hedge accounting is applied by the Group.

4.8.3. Judgments and 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 principles and presented 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 values 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.

Revisions to estimates concern provisions (note no. 4.4.3), deferred income tax (note no. 4.3.7), write-downs (note no. 4.5.1) and contingent liabilities (note no. 4.7.10).

5. Approval of the condensed consolidated financial statements

These condensed consolidated financial statements for the six months ended 30 June 2018 were approved for publication by the Management Board of ZUE on 3 September 2018.

Statements 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 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 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 profit or loss.

Publication of separate half-yearly condensed separate financial statements

Pursuant to § 62.3 of the Regulation of the Minister of Finance of 29 March 2018, 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, 3 September 2018



ZUE S.A.

**CONDENSED SEPARATE FINANCIAL STATEMENTS
FOR 6 MONTHS ENDED 30 JUNE 2018**

Cracow, 3 September 2018

IV. Condensed separate financial statements of ZUE S.A.

Separate statement of comprehensive income

Continuing operations	Note no.	6 months ended	6 months ended
		30-06-2018	30-06-2017
Revenue	2.1.1.	289,797	100,095
Cost of sales	2.1.2.	279,928	106,196
Gross profit (loss) on sales		9,869	-6,101
General and administrative expenses	2.1.2.	8,655	8,343
Other operating income	2.1.3.	789	1,823
Other operating expenses	2.1.4.	839	1,211
Operating profit (loss)		1,164	-13,832
Financial income	2.1.5.	876	891
Financial expenses	2.1.6.	431	2,497
Pre-tax profit (loss)		1,609	-15,438
Corporate income tax	2.1.7.	373	-2,563
Net profit (loss) from continuing operations		1,236	-12,875
Net profit (loss)		1,236	-12,875
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
50		-3	-
Actuarial gains (losses) relating to specific benefit schemes		-3	-50
Total other net comprehensive income		-3	-50
Total comprehensive income		1,233	-12,925
Number of shares		23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)		0.05	-0.56
Total comprehensive income (loss) per share (PLN)		0.05	-0.56

Separate statement of financial position

	Note no.	Balance at 30-06-2018	Balance at 31-12-2017
ASSETS			
Non-current assets			
Property, plant and equipment	2.5.1.	103,069	92,004
Investment property	2.5.2.	8,874	9,095
Intangible assets		8,350	8,594
Goodwill	2.5.3.	31,172	31,172
Investments in subordinates		210	210
Retentions on construction contracts	2.2.2.	9,648	9,439
Deferred tax assets	2.1.7.	7,431	7,803
Total non-current assets		168,754	158,317
Current assets			
Inventories	2.5.6.	36,904	24,239
Trade and other receivables	2.3.1.	95,057	105,746
Valuation of long-term construction contracts	2.2.1.	138,035	65,524
Retentions on construction contracts	2.2.2.	233	4,393
Current tax assets	2.1.7.	0	0
Loans advanced	2.5.5.	3,266	10
Other assets		1,016	909
Cash and cash equivalents	2.4.3.	9,491	116,144
Total current assets		284,002	316,965
Total assets		452,756	475,282
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		114,694	113,461
Total equity		211,599	210,366
Non-current liabilities			
Long-term loans and bank credits and other financing sources	2.4.1.	18,853	11,205
Retentions on construction contracts	2.2.2.	6,170	5,755
Liabilities under employee benefits		880	856
Long-term provisions	2.2.3.	6,303	5,671
Other liabilities		210	350
Total non-current liabilities		32,416	23,837
Current liabilities			
Trade and other payables	2.3.2.	167,843	205,950
Valuation of long-term construction contracts	2.2.1.	65	475
Retentions on construction contracts	2.2.2.	6,031	6,663
Short-term loans and bank credits and other financing sources	2.4.1.	14,135	8,773
Other financial liabilities		36	36
Liabilities under employee benefits		17,687	16,184
Current tax liabilities	2.1.7.	0	0
Short-term provisions	2.2.3.	2,944	2,998
Total current liabilities		208,741	241,079
Total liabilities		241,157	264,916
Total equity and liabilities		452,756	475,282

Separate statement of changes in equity

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	1 January 2018	5,758	93,837	-2,690	113,461	210,366
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	1,236	1,236
Other net comprehensive income		0	0	0	-3	-3
Balance at	30 June 2018	5,758	93,837	-2,690	114,694	211,599

		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

Separate statement of cash flows

	Period ended 30-06-2018	Period ended 30-06-2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	1,609	-15,438
Adjustments for:		
Depreciation and amortisation	5,134	4,721
Foreign exchange gains / (losses)	-33	723
Interest and share in profit (dividends)	228	92
(Gain) / loss on disposal of investments	-128	-1,132
Operating profit (loss) before changes in working capital	6,810	-11,034
Change in receivables and retentions on construction contracts	-52,531	-25,453
Change in inventories	-12,665	-31,470
Change in provisions and liabilities under employee benefits	2,100	-1,116
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	-38,833	-11,171
Change in accrued expenses	-106	421
Income tax paid / tax refund	0	20
NET CASH FROM OPERATING ACTIVITIES	-95,225	-79,803
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	742	465
Purchase of property, plant and equipment and intangible assets	-14,479	-14,613
Sale / (purchase) of financial assets in related entities	-58	0
Cash payments to purchase debt instruments of other entities	0	-166,943
Cash from repurchase of debt instruments of other entities	0	216,028
Advanced loans	-3,210	-9
Repayment of granted loans	0	4
Interest received	216	102
Gain/loss on repurchase of debt instruments	0	272
NET CASH FROM INVESTING ACTIVITIES	-16,789	35,306
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	11,836	14,600
Repayment of loans and bank credits	0	0
Decrease in finance lease liabilities and liabilities relating to financing of property, plant and equipment	-6,164	-5,504
Interest paid	-344	-219
Other cash provided by / (used in) financing activities – dividends	0	-1
Net cash from issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	5,328	8,876
TOTAL NET CASH FLOWS	-106,686	-35,621
Net foreign exchange gains / (losses)	33	-723
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	116,144	61,207
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	9,491	24,863

Notes to Condensed Separate Financial Statements of ZUE

1. General information

1.1. 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 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).

1.2. Activities of the Company

ZUE is a major player in the urban and railway transport infrastructure sector.

ZUE focuses on the execution, as a general contractor or consortium leader or subcontractor, of multi-discipline projects including:

- **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.

For reporting purposes, ZUE uses a uniform accounting policy for all areas of its activity and identifies one aggregate segment, namely construction activities.

1.3. Functional and reporting currency

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

2. Financial information

2.1. Notes to the statement of comprehensive income

2.1.1. Revenue

	Period ended 30-06-2018	Period ended 30-06-2017
Revenue from construction contracts	283,655	97,587
Revenue from the rendering of services	5,604	2,088
Revenue from the sale of goods and raw materials	538	420
Total	289,797	100,095

The Company's revenue in the period from 1 January to 30 June 2018 amounted to PLN 289,797 thousand and increased by 190% over the analogous figure reported in the analogous period of 2017.

In the first half of 2018, the Company carried out works in the territory of Poland. In addition, ZUE generated revenue of PLN 198 thousand from the provision of equipment services in Slovakia.

The biggest portion of revenue has been earned from long-term construction contracts.

Company presents revenue in one reporting segment, namely construction activity.

2.1.2. Operating expenses

	Period ended 30-06-2018	Period ended 30-06-2017
Change in products	-1,082	-501
Depreciation and amortization	5,134	4,721
Consumption of raw and other materials	166,814	42,744
Contracted services	73,339	33,601
Costs of employee benefits	38,356	27,440
Taxes and charges	756	794
Other expenses	5,065	5,584
Value of goods and materials sold	201	156
Total	288,583	114,539

The increase in operating expenses was mainly influenced by the performance of the new contracts under the current EU perspective. The increase was seen, in particular, in the consumption of materials and the purchase of services provided by subcontractors in connection with the performed contracts.

	Period ended 30-06-2018	Period ended 30-06-2017
Cost of sales	279,928	106,196
General and administrative expenses	8,655	8,343
Total	288,583	114,539

ZUE's general and administrative expenses between 1 January and 30 June 2018 stood at PLN 8,655 thousand and increased by 4% when compared with the Company's general and administrative expenses in the first half of 2017.

Depreciation and amortisation

	Period ended 30-06-2018	Period ended 30-06-2017
Depreciation of property, plant and equipment	4,658	4,206
Amortisation of intangible assets	244	284
Depreciation of investments in real property	232	231
Total	5,134	4,721

2.1.3. Other operating income

	Period ended 30-06-2018	Period ended 30-06-2017
Gain on disposal of assets	128	167
Gain on disposal of non-current assets	128	167
Other operating income	661	1,656
Damages and penalties	0	9
Release of write-downs on receivables	37	274
Refund of costs of court proceedings	576	48
Release of write-downs on inventories	8	13
Release of write-downs on investment property	0	1,000
Other	40	312
Total	789	1,823

In order to make the financial statements clearer, ZUE presents reinvoices and damages jointly (income and expenses according to their netted balance). The comparative data has been accordingly restated.

2.1.4. Other operating expenses

	Period ended 30-06-2018	Period ended 30-06-2017
Loss on disposal of assets	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses	839	1,211
Donations	16	14
Damages and penalties	430	0
Write-downs on receivables	168	1,152
Costs of litigation	223	3
Other	2	42
Total	839	1,211

In order to make the financial statements clearer, ZUE presents reinvoices and damages jointly (income and expenses according to their netted balance. The comparative data has been accordingly restated.

2.1.5. Financial income

	Period ended 30-06-2018	Period ended 30-06-2017
Interest income	417	417
Interest on bank deposits	298	102
Interest on loans	46	5
Interest on receivables	73	310
Other financial income	459	474
Discount of long-term items	353	0
Realisation of financial instruments	0	272
Guarantees	106	200
Other	0	2
Total	876	891

2.1.6. Financial expenses

	Period ended 30-06-2018	Period ended 30-06-2017
Interest expenses	352	221
Interest on finance lease liabilities	84	130
Interest on liabilities relating to financing of property, plant and equipment	260	89
Interest on trade and other payables	8	2
Other financial expenses	79	2,276
Foreign exchange losses	5	754
Discount of long-term items	0	1,483
Write-down on investments in subordinates	58	0
Other	16	39
Total	431	2,497

2.1.7. Corporate income tax

Corporate income tax recognised in the statement of comprehensive income

	Period ended 30-06-2018	Period ended 30-06-2017
Current income tax	0	-20
Deferred tax	373	-2,543
Total tax expense/income	373	-2,563

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 neither forms a tax capital group nor operates in a Special Economic Zone. Tax year and financial year coincide with the calendar year.

Income tax according to effective tax rate

	Period ended 30-06-2018	Period ended 30-06-2017
Gross profit (loss)	1,609	-15,438
Income tax at the applicable rate of 19%	306	-2,933
Effect of the tax recognition of:		
Use of tax losses brought forward	-3,376	113
	0	0
Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	10,540	4,507
Revenue not classified as revenue under tax regulations and taxable revenues that are not balance sheet revenue	13,916	4,394
Revaluation of deferred tax assets	3,070	2,820
Deferred tax	373	-2,543
Income tax adjustments	0	0
Income tax paid /(tax refund) on income earned abroad	0	-20
Income tax according to effective tax rate	373	-2,563
Effective tax rate	23%	17%

Current tax assets and liabilities

	Balance at 30-06-2018	Balance at 31-12-2017
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	0	0

Deferred tax

	As at 30-06-2018	As at 30-06-2017
Deferred tax balance at the beginning of the period	7,803	8,465
Temporary differences relating to deferred tax assets:	33,713	17,354
Provisions for expenses and accruals	12,776	7,569
Discount of receivables	343	516
Operating lease liabilities	1,429	90
Write-downs	1,181	1,352
Bonds and insurance settled in time	1,612	825
Tax work in progress	15,977	6,399
Valuation of long-term contracts	12	245
Other	383	358
Temporary differences relating to deferred tax liabilities:	37,006	17,024
Valuation of long-term contracts	26,227	7,532
Property, plant and equipment and intangible assets	10,367	9,191
Discount of payables	409	295
Other	3	6
Unused tax losses and other tax credits:	10,724	10,690
Tax losses	10,724	10,690
Total temporary differences relating to deferred tax assets:	44,437	28,044
Total temporary differences relating to deferred tax liabilities:	37,006	17,024
Deferred tax balance at the end of the period	7,431	11,020
Change in deferred tax, including:	-372	2,555
- recognised in income	-373	2,543
- recognised in equity	1	12

Deferred tax recognised in equity is a result of calculating tax on actuarial gains/losses presented in comprehensive income.

2.2. Contracts, retentions and provisions

2.2.1. Construction contracts

The following details relate to long-term construction contracts performed by the Company.

	Period ended 30-06-2018	Period ended 30-06-2017
Revenue from long-term construction contracts	272,407	91,344
Costs of long-term construction contracts	262,402	93,449
Gross profit (loss) on long-term contracts	10,005	-2,105
	Period ended 30-06-2018	Period ended 31-12-2017
Assets (selected items)	162,348	90,919
- Valuation of long-term construction contracts	138,035	65,524
- Advance payments for contracts	14,432	11,563
- Retentions on construction contracts retained by customers	9,881	13,832
Liabilities (selected items)	128,292	125,425
- Valuation of long-term construction contracts	65	475
- Provisions for contract costs	45,827	28,737
- Advance payments for contracts	60,952	75,126
- Retentions on construction contracts retained for suppliers	12,201	12,418
- Provisions for warranty claims	9,081	8,252
- Provisions for expected losses on contracts	166	417

Receivables from contracts increased mainly as a result of greater progress of works.

Provisions for contract costs are included in accruals.

2.2.2. Retentions on construction contracts

	Period ended 30-06-2018	Period ended 31-12-2017
Retained by customers – to be repaid after 12 months	9,648	9,439
Retained by customers – to be repaid within 12 months	233	4,393
Total retentions on construction contracts retained by customers	9,881	13,832
Retained for suppliers – to be repaid after 12 months	6,170	5,755
Retained for suppliers – to be repaid within 12 months	6,031	6,663
Total retentions on construction contracts retained for suppliers	12,201	12,418

The construction contracts and work-for-hire contracts entered into by the Company provide for an obligation to provide performance bonds and defects liability bonds in the form of deposits or bonds issued by banks or insurance companies. If the term of a bond provided by a bank is longer than 37 months, the bank establishes additional security in the form of cash deposit.

Cash deposits changed at the end of the first half of 2018 after the amount had been returned by the Bank following the expiry of the deposit term.

2.2.3. Provisions

Change in provisions

Provisions	01-01-2018	Created	Used	Released	Reclassified	30-06-2018	Item
Long-term provisions:	6,527	1,265	54	101	-454	7,183	
Provisions for employee benefits	856	24	0	0	0	880	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,671	1,241	54	101	-454	6,303	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	13,117	6,841	6,992	509	454	12,911	
Provisions for employee benefits	10,119	6,725	6,750	127	0	9,967	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,581	0	242	15	454	2,778	Short-term provisions
Provision for loss on contracts	417	116	0	367	0	166	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	19,644	8,106	7,046	610	0	20,094	

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

Provisions for employee benefits include the provisions for leaves, bonuses, overtime work and retirement or pension gratuities. The provisions decreased mainly as a result of the payment of contract bonuses and annual bonuses, and the use of leaves.

Provision for a loss on contracts is created if the budgeted expenses are higher than the total revenue under a contract.

2.3. Trade and other receivables

2.3.1. Trade and other receivables

	Balance at 30-06-2018	Balance at 31-12-2017
Trade receivables	89,864	103,145
Write-downs on trade receivables	-13,740	-13,280
Advance payments	14,432	11,563
Other receivables	4,501	4,318
Total trade and other receivables	90,057	105,746

The Company receives advance payments from Investors (see Liabilities) and transfers them to subcontractors to ensure the timely performance of construction contracts.

Other receivables include the security created in connection with the financing agreement of PLN 4,000 thousand.

Change in write-downs of trade receivables influencing the profit or loss includes the release of write-downs of PLN 37 thousand and the creation of write-downs of PLN 168 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by ZUE for penalties and damages that are not the Company's revenue at the moment of issue.

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

	Balance at 30-06-2018
Counterparty A	54,196
Total	54,196

The concentration of credit risk is limited due to high creditworthiness of the abovementioned counterparty assessed, *inter alia*, by analysing their financial standing and the fact that they meet additional requirements for settling EU funds. The Company has performed construction contracts for the Counterparty A for many years. The Counterparty A is co-owned by the State Treasury as a result of which their creditworthiness is increased. Accordingly, the Management Board of the Company believe there is no need to create additional allowances.

2.3.2. Trade and other payables

	Balance at 30-06-2018	Balance at 31-12-2017
Trade payables	56,487	86,200
Payables to the state budget other than corporate income tax	4,383	15,538
Accruals	45,972	28,944
Other payables	49	142
Advance payments	60,952	75,126
Total trade and other payables	167,843	205,950

The items include:

- Accruals – provisions for the costs of subcontractors and provisions for the risks relating to the settlement of contracts;
- Advance payments – prepayments received by ZUE on the basis of contracts with PKP PLK. Under the said contracts, ZUE received advance payments to perform construction contracts.

2.4. Debt and management of capital and liquidity

In the first half of 2018, the Company continued to finance its investments with leases and adjusted the term of liabilities thereunder to its backlog. ZUE did not use any credits despite available credit lines. The main task of financial officers was to obtain the new bond lines to secure tender procedures, proper performance of contracts and the term of warranty and guarantee.

2.4.1. Loans and bank credits and other financing sources

	Balance at 30-06-2018	Balance at 31-12-2017
Long-term	18,853	11,205
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	15,235	7,714
Finance lease liabilities	3,618	3,491
Short-term	14,135	8,773

Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	11,570	6,680
Finance lease liabilities	2,565	2,093
Total	32,988	19,978

Liabilities relating to the financing of property, plant and equipment include leasebacks. In the first half of 2018, the Company signed the agreements for the purchase of pile driver of PLN 3,326 thousand, wagons of PLN 8,510 thousand and two-way rail welding machine of PLN 5,483 thousand.

For presentation purposes, leaseback has been named the agreement for financing of property, plant and equipment.

Summary of credit agreements

No.	Bank	Description	Principal/limit according to the agreement	Use as at 30.06.2018	Interest	Repayment date
1	mBank S.A. (ii)	Overdraft	10,000	0	O/N WIBOR + margin	10-05-2019
2	mBank S.A.	Cooperation agreement including: sublimit for bonds sublimit for working credit facilities	50,000 50,000 30,000	23 23 0	3M WIBOR + margin	17-07-2020
3	BGŻ BNP PARIBAS S.A. (i)	Multipurpose credit line agreement including: sublimit for bonds sublimit for working credit facilities	170,000 170,000 20,000	71,617 71,617 0	1M WIBOR + margin	26-10-2018
4	PEKAO S.A. (i)	Multipurpose credit limit agreement including: sublimit for bonds sublimit for working credit facilities	100,000 100,000 20,000	84,806 84,806 0	1M WIBOR + margin	30-11-2018
Total use of credits				0		
Total use of bonds				156,446		

- (i) ZUE may use the available credit limit for bank guarantees.
(ii) Annex of 9 May 2018 whereby the limit was raised to PLN 100,000 thousand.

Security and liabilities relating to concluded credit agreements:

1. **Overdraft** – security: bill of exchange;
2. **Cooperation agreement** – security: mortgage;
3. **Multipurpose credit line agreement** – security:
 - a) bill of exchange;
 - b) cash deposit for the bonds expiring after 37 months;
 - c) security deposit of PLN 4,000 thousand;

- d) registered pledge on non-current assets owned by the Borrower;
e) assignment of rights under policy.

4. Multipurpose credit limit agreement – security:

- a) assignment of claims;
b) registered pledge on non-current assets owned by the Borrower;
c) assignment of rights under policy;
d) cash deposit for the bonds expiring after 37 months.

The following changes were made to the Company's credit agreements in the reporting period:

- mBank – Overdraft – the limit was raised by PLN 5000 thousand under the Annex of 9 May 2018.

2.4.2. Capital management

The Company reviews the capital structure each time for the purpose of major contract financing. As part of this review, the Company considers the funds required for day-to-day operations, the schedule of contract financing, the cost of capital and the risks associated with each class of capital.

	Balance at 30-06-2018	Balance at 31-12-2017
Long- and short-term loans and bank credits and other financing sources	32,988	19,978
Long- and short-term other financial liabilities	36	36
Total financial liabilities	33,024	20,014
Cash and cash equivalents	9,491	116,144
Net debt	23,533	-96,130
Equity	211,599	210,366
Net debt to equity ratio	-11.12%	-45.70%

The Company's long- and short-term debt mainly includes liabilities under leases for the purchase of non-current assets and liabilities relating to the financing of property, plant and equipment (leaseback).

The Company disclosed positive net debt because the total debt at the end of the first half of 2018 was higher than ZUE's cash at the end of the first half of 2018. The Company mainly uses own funds to finance day-to-day operations. It also has credit limits. At the end of the reporting period, the said limits were mainly used for bonds.

2.4.3. Cash and cash equivalents

	Balance at 30-06-2018	Balance at 31-12-2017
Cash on hand and at banks	9,491	105,144
Bank deposits up to three months	0	11,000
TOTAL	9,491	116,144

Cash decreased at the end of the half of 2018 because the Company used it to conduct operating activities.

Discussion of items of the statement of cash flows

The Company's cash flows from operating activities of PLN (-) 95,225 thousand were mainly influenced by changes in retentions, payables and receivables and inventories in connection with the performance of construction contracts.

The Company's cash flows from investing activities of PLN (-)16,789 thousand were mainly influenced by the purchase of non-current assets (specialist machinery) and a loan granted to a subsidiary.

The Company's cash flows from financing activities of PLN 5,328 thousand were mainly influenced by the conclusion of leasebacks for specialist equipment and a decrease in lease liabilities.

	Period ended 30-06-2018	Period ended 30-06-2017
Cash flows from operating activities	-95,225	-79,803
Cash flows from investing activities	-16,789	35,306
Cash flows from financing activities	5,328	8,876
Total net cash flows	-106,686	-35,621
Cash and cash equivalents at the beginning of the period	116,144	61,207
Cash and cash equivalents at the end of the period	9,491	24,863

2.5. Notes to the financial statements

2.5.1. Property, plant and equipment

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 2018	0	24,576	45,960	67,095	2,069	139,700	3,202	3,705	146,607
Additions	0	0	4,373	17,922	0	22,295	10,548	945	33,788
Presentation adjustment	0	11	0	-11	0	0	0	0	0
Transfer to non-current assets	0	0	0	0	0	0	12,844	4,650	17,494
Sale/liquidation	0	0	1,527	839	5	2,371	0	0	2,371
Balance at 30 June 2018	0	24,587	48,806	84,167	2,064	159,624	906	0	160,530

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 2018	0	7,710	20,567	24,643	1,683	54,603	0	0	54,603
Elimination on disposal of assets	0	0	1,102	693	5	1,800	0	0	1,800
Depreciation expense	0	394	1,527	2,671	66	4,658	0	0	4,658
Balance at 30 June 2018	0	8,104	20,992	26,621	1,744	57,461	0	0	57,461

Carrying amount	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 2018	0	16,866	25,393	42,452	386	85,097	3,202	3,705	92,004
Balance at 30 June 2018	0	16,483	27,814	57,546	320	102,163	906	0	103,069

No impairment losses were recognised by the Company in the reporting period.

Assets pledged as security

Note 2.5.10 deals with property, plant and equipment used to secure the agreements with banks. The Company's liabilities under finance lease and liabilities arising from the financing of property, plant and equipment (note 2.4.1) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

2.5.2. Investment property

Investment property

Gross value	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2018	126	5,228	7,397	0	0	0	12,751
Additions	0	0	11	0	0	0	11
Impairment	0	0	0	0	0	0	0
Sale/liquidation	0	0	0	0	0	0	0
Balance at 30 June 2018	126	5,228	7,408	0	0	0	12,762

Depreciation	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2018	0	1,505	2,151	0	0	0	3,656
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	86	146	0	0	0	116
Balance at 30 June 2018	0	1,591	2,297	0	0	0	3,772

Carrying amount

Balance at 1 January 2018	126	3,723	5,246	0	0	0	9,095
Balance at 30 June 2018	126	3,637	5,111	0	0	0	8,874

Investment property at 30 June 2018:

- real property in Kościelisko (plots no. 2001 and 2491);
- real property in Poznań (plot no. 2/1).

All of the Company's investment property is held either as freehold or leasehold interests.

In the reporting period, the Company did not release any impairment losses. The total value of investment property impairment losses in previous years is PLN 1,770 thousand. The investment property was measured at purchase price less impairment losses. Revenue from the lease of investment property in 2018 was PLN 190 thousand (PLN 180 thousand in 2017).

2.5.3. Goodwill

At cost	Balance at 30-06-2018	Balance at 31-12-2017
Goodwill of PRK	31,172	31,172
Balance at the end of the reporting period	31,172	31,172

ZUE merged with Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A (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.

The entire goodwill is assigned to the construction segment.

Goodwill impairment test

The test was carried out using the FCFF approach in a four-year time horizon. According to the Company's principles, the recoverable amount of an asset generating funds was measured at use value.

The recoverable amount was determined using the discounted future cash flows method. The rate of average weighted cost of capital including projected structure and the cost of financing, and the market risks was at 10%.

After it had considered external circumstances influencing a long-term market capitalization of the Company below the carrying amount, the Company carried out a test for the impairment of the Company's assets as at 30 June 2018.

The impairment tests carried out at 30 June 2018 according to *IAS 36 Impairment of Assets* revealed no risks to the loss of the carrying amount of the Company's assets.

Sensitivity to changes in assumptions

If the useful value of an asset generating cash is estimated, the management personnel is convinced that no reasonably possible change to any key assumption will cause the carrying amount of the said asset to substantially exceed its recoverable value.

2.5.4. Investments in non-current assets

The total capital expenditure incurred by the Company in the reporting period amounted to PLN 16,305 thousand. The capital expenditure and investment financing are detailed in the table below.

Item:	Own funds	Finance lease	Leaseback	Total
Intangible assets, including:	0	0	0	0
- leasehold land	0	0	0	0
Property, plant and equipment, including:	-2,880	1,855	17,319	16,294
- buildings and structures	0	0	0	0
- plant and equipment	4,373	0	3,326	7,699
- vehicles	16,387	1,535	13,993	31,915
- other	0	0	0	0
- non-current assets under construction	10,228	320	0	10,548

- settlement of non-current assets under construction for ongoing investments	-12,844	0	0	-12,844
- leaseback	-17,319	0	0	-17,319
- current advance payments	945	0	0	945
- settlement of advance payment from prior period for ongoing investments	-4,650	0	0	-4,650
Investment property	11	0	0	11
Equity investments	0	0	0	0
Total investments	-2,869	1,855	17,319	16,305

Major investments in property, plant and equipment made by ZUE in the first half of 2018 included:

- Purchase of EAOS wagons worth PLN 4,575 thousand (leaseback).
- Purchase of Smmps wagons worth PLN 3,935 thousand (leaseback).
- Complete overhauls of machines and vehicles – PLN 2,916 thousand.
- Purchase of cars – PLN 1,645 thousand (lease).
- Purchase of pile driver – PLN 3,326 thousand (leaseback).
- Purchase of two-way rail welding machine – PLN 5,483 thousand (leaseback).
- Purchase of wrenches – PLN 177 thousand.
- Purchase of storage containers – PLN 44 thousand.

The pile driver, wagons and two-way rail welding machine were initially financed by own resources.

The amount recognized in the statement of cash flows is the purchase of PLN 14,479 thousand. The difference is a result of actual payments, leases and the settlement of advance payments and non-current assets under construction.

2.5.5. Advanced loans

	Balance at 30-06-2018	Balance at 31-12-2017
Loans advanced to related entities	3,325	66
Loans advanced to other entities	292	279
Impairment losses	-351	-335
Total	3,266	10

Advanced loans include principal and interest charged at the end of the reporting period. In the first half of 2018, the Company advanced a special-purpose loan of PLN 3,200 thousand to a related company.

2.5.6. Inventories

	Balance at 30-06-2018	Balance at 31-12-2017
Goods, materials and raw materials	35,289	23,706
Work in progress	1,416	334
Finished goods	199	199
Total	36,904	24,239

Inventories increased because they were gathered for the purpose of contract performance. The purchase of strategic materials such as aggregate, sleepers, rails or railway switches is secured by the conclusion of long-term master agreements. The abovementioned materials are purchased to reduce the risk of price increase in times of limited supply caused by the accumulation of railway works.

2.5.7. Financial instruments

The following table sets out the carrying amounts of the Company's financial instruments with a breakdown into particular classes and categories of assets and liabilities.

Balance at 30 June 2018

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through:		Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
		Profit or loss	Other comprehensive income		
Retentions on construction contracts (before discount)	11,981	0	0	0	13,175
Trade receivables	89,864	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	3,266	0	0	0	0
Cash and cash equivalents	9,491	0	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	32,988
Trade payables	0	0	0	0	56,487
Total	114,602	0	0	0	102,686

Financial instruments were classified by the Company in the reporting period according to IFRS 9 effective since 1 January 2018.

2.5.8. Transactions with related entities

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

	Receivables		Payables	
	Balance at		Balance at	
	30-06-2018	31-12-2017	30-06-2018	31-12-2017
Railway gft	46	178	37	4,919
BPK Poznań	1,333	1,351	2,200	1,329
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	1,379	1,529	2,237	6,248

	Revenue		Purchases	
	Period ended		Period ended	
	30-06-2018	30-06-2017	30-06-2018	30-06-2017
Railway gft	173	187	2,701	23,675
BPK Poznań	301	249	4,124	1,461
RTI	2	2	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	468
Total	476	438	6,825	25,604

	Advanced loans		Financial income (interest)	
	Balance at		Period ended	
	30-06-2018	31-12-2017	30-06-2018	30-06-2017
Railway gft	3,246	0	46	0
BPK Poznań	0	0	0	0
RTI	20	10	0	0
RTI Germany	59	56	1	0
Wiesław Nowak	0	0	0	0
Total	3,325	66	47	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 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 used in connection with the construction and repair of tracks;
- o Design services; and
- o Printing services.

In the reporting period, ZUE executed the following transactions:

- o Lease of business establishments to RTI on the basis of the lease of 31 December 2015; and
- o Lease of rooms to BPK Poznań on the basis of the lease of 1 October 2015 and the lease of 7 April 2010, as amended.

On 24 January 2018, ZUE and Railway gft signed a loan agreement whereby Railway gft was granted a special-purpose loan of PLN 3.2m to be repaid by 31 March 2019. The loan was disbursed on 25 January 2018.

On 10 April 2018, ZUE and Mr. Wiesław Nowak entered into the sales agreement whereby Wiesław Nowak sold the shares held by him in RTI for PLN 58 thousand.

On 13 April 2018, ZUE and RTI signed a loan agreement whereby RTI was granted a special-purpose loan of PLN 10 thousand to be repaid by 20 December 2018. The loan was disbursed on 20 April 2018.

On 19 June 2018, ZUE and RTI Germany signed an annex no. 3 to the loan agreement of 31 May 2016 whereby the loan and interest repayment date was extended until 20 June 2019.

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 said guarantees at 30 June 2018 amounted to PLN 18,505 thousand. ZUE is remunerated for the provision of the said guarantees.

2.5.9. Proceedings before court, arbitration or public administration authority at the date of preparation of this report

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

The court cases are presented in detail in the note III 4.7.9 of the consolidated financial statements.

2.5.10. Contingent assets and liabilities

Contingent assets

	Balance at 30-06-2018	Balance at 31-12-2017
Bonds	46,655	36,309
Bills of exchange	15,370	6,756
Total	62,025	43,065

Contingent assets in the form of bonds and guarantees include the bonds provided by banks and insurance companies for the benefit of ZUE to secure the Company's claims relating to subcontracted construction services and the repayment of received advances. The supply of machines is secured by bills of exchange.

Contingent liabilities

	Balance at 30-06-2018	Balance at 31-12-2017
Bonds	542,639	477,103
Guarantees	18,505	18,421
Bills of exchange	334,205	317,684
Mortgages	54,259	54,259
Pledges	14,299	13,048
Total	963,907	880,515

Contingent liabilities in the form of bonds for the benefit of other entities 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 in connection with construction contracts and sales agreements. Insurance companies and banks have recourse against the Company.

Contingent liabilities in the form of guarantees secure the bonds and credits provided to the Group companies by banks and insurance companies and guaranteed by the Parent Company.

The liabilities to banks and strategic clients are secured by bills of exchange.

Mortgages are additional security for the credit agreements with mBank SA and the insurance agreement with PZU SA.

Registered pledges were established in connection with the annexes to agreements between ZUE and BGŻ BNP PARIBAS and PEKAO whereby limits had been raised. The pledged assets include wagons, pile driver and maintenance train.

2.5.11. Cyclical and seasonal nature of the Company's operations

Construction and assembly operations are marked by the seasonality of production and sales. The topic is discussed in detail in the note II 2.5 of the consolidated financial statements.

2.5.12. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the reporting or comparative period.

2.5.13. Issue and redemption of debt and equity securities

No debt securities were issued or redeemed by the Company in the reporting period. No equity securities were redeemed by the Company in the reporting period.

2.5.14. Dividend

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 839 thousand to reserve funds. The Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations.

On 5 June 2018, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2017 as recommended by the Management Board of ZUE.

2.5.15. Operating segments

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 construction activity.

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

2.6. Other notes to the financial statements

2.6.1. 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 2018 as endorsed by the European Union (EU).

The half-yearly separate financial statements for the six months ended 30 June 2018 have been prepared according to 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.

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

The following amendments to the existing standards published by the International Accounting Standards Board (IASB) and approved for use in the European Union come into force in 2018:

- **IFRS 9 "Financial Instruments"** – endorsed 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" – endorsed in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts"** – Use of **IFRS 9 "Financial Instruments"** in conjunction with **IFRS 4 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2018 or the moment IFRS 9 "Financial Instruments" are used for the first time);
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2018);
- **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 IAS 28 "Investments in Associates and Joint Ventures"** – a part of "**Amendments Resulting from Review of IFRS 2014-2016**" (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 1 "Use of International Financial Reporting Standards for the first time"** – a part of "**Amendments Resulting from Review of IFRS 2014-2016**" (effective for annual periods beginning on or after 1 January 2018);
- **Interpretation of IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).

Standards and interpretations published by the EU but not yet effective

Upon the approval of these financial statements, the following new standards and amendments to the standards were published by the IASB and approved for use in the EU but did not come into force:

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IFRS 9 "Financial Instruments"** – "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019).

Standards and interpretations adopted by the IASB but not yet endorsed 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) excluding the following new standards and amendments to the standards not yet approved for use in the EU at the date of preparation of this report:

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"** (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"** (the effective date has been deferred by the IASB indefinitely);
- **Amendments Resulting from Review of IFRS 2015-2017** (effective for annual periods beginning on or after 1 January 2019);
- **Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019);
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016).

The new or amended standards or interpretations used for the first time in 2018 do not have any material influence on the interim financial statements. The influence of IFRS 15 and IFRS 9 on the accounting policy has been discussed in the note III 4.8.2 of the consolidated financial statements.

IFRS 16 "Leases" is being analysed in detail by the Company. Note 8.1.5 of the separate financial statements for the year ended 31 December 2017 contains a detailed description of the standard.

2.6.2. Important accounting principles

Going concern

The half-yearly condensed financial statements of the Company have been prepared assuming that the companies within the Company will continue in operational existence for at least 12 months after the end of the reporting period; i.e. after 30 June 2018.

The most important factor influencing the Company's ability to continue in operational existence is its financial standing.

The key factors with an impact on the Company's ability to continue its activities include liquidity, proper backlog and market situation.

The following facts should be taken into account when analysing the financial position of the Company: In the six months ended 30 June 2018, the Company recognised sales revenue of PLN 290m and net profit of PLN 1m. In addition, the Company reported net current assets of PLN 75m, including cash of PLN 9m. There is PLN 2,217m in the Company's portfolio.

The Management Board of ZUE have analysed cash flow projections. The analysis has revealed positive cash flows in subsequent months enabling the Company to continue its operations within the same scope.

The Management Board of ZUE confirm that profit or loss has been recognised on the basis of budgets of the contracts included by the Company in its backlog. The budgets have been prepared taking into account such factors as the price of materials, services and labour at the date of preparation of the financial statements, labour costs relating to the terms of employment applicable at the date of preparation of the financial statements, technical and technological assumptions relating to the performance of contracts, obtaining any necessary administrative decisions (including consents) by the dates specified in contract schedules, site handovers, track closures and other means of access gained by the specified dates and within the specified scopes, solvency and proper contract performance by the key business partners. The business activity conducted by the Company inherently involves risks (including the risks likely to follow from the abovementioned factors) whose occurrence is unpredictable. The Management Board identify and discuss the risks associated with the Company's activities in their reports.

Based on the sales volume and profit or loss reported in H1 2018, which have increased over the analogous figures disclosed at the end of H1 2017, as well as the structure of the Company's net current assets, its cash, backlog and projected cash flows, the Management Board of ZUE state that there are no significant going concern risks at the end of the reporting period. Accordingly, these interim condensed financial statements have been prepared assuming that the Company will continue in operational existence for the foreseeable future.

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 the current and comparative period.

Comparability of financial information

No changes in the presentation of financial information have been made in the comparative periods, except for the following changes:

In these financial statements and the comparative information, the Company presented the item named: "Measurement of long-term construction contracts" and made the following annotation:

- Included in assets are the amounts due and receivable from customers (contracting authorities) in connection with all construction work in progress in respect of which the recognised revenue exceeds the amounts due under partial invoices;
- Included in liabilities are the amounts due and payable to suppliers under all construction work in progress in respect of which the amounts invoiced for the work performed under the contract exceed the recognised revenue.

Previously the Company recognised receivables under contracts (measurement) under Trade and other receivables and payables under contracts (measurement) under Trade payables.

The table below presents the influence of changes on the separate statement of financial position:

Effect	Restated		Approved
	Balance at 31-12-2017	Balance at 31-12-2017	of
change			
ASSETS			
Non-current assets			
Total non-current assets	158,317	158,317	0
Current assets			0
Trade and other receivables	105,746	171,270	-65,524
Valuation of long-term construction contracts	65,524	0	65,524
Total current assets	316,965	316,965	0
Total assets	475,282	475,282	0
LIABILITIES			
Equity			
Total equity	210,366	210,366	0
Non-current liabilities			0
Total non-current liabilities	23,837	23,837	0
Current liabilities			0
Trade and other payables	205,950	206,425	-475
Valuation of long-term construction contracts	475	0	475
Total current liabilities	241,079	241,079	0
Total liabilities	264,916	264,916	0
Total equity and liabilities	475,282	475,282	0

Applied accounting principles

Except for the following changes, these half-yearly separate financial statements for the six months ended 30 June 2018 have been prepared according to the same accounting principles and measurement methods as those used in the last annual financial statements of the Parent Company as at 31 December 2017. The financial statements for the financial year ended 31 December 2017 contain a detailed description of the accounting principles applied 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.

Changes to accounting principles and preparation of financial statements

The Company has applied IFRS 15 and IFRS 9 since 1 January 2018. The influence of the new standards is discussed in detail in the note III 4.8.2 of the consolidated financial statements.

2.6.3. Judgments and 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 principles and presented 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 values 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.

Revisions to estimates concern provisions (note no. 2.2.3), deferred income tax (note no. 2.1.7), write-downs (note no. 2.3.1) and contingent liabilities (note no. 2.5.10).

3. Approval of the condensed separate financial statements

These condensed separate financial statements for the six months ended 30 June 2018 were approved for publication by the Management Board of ZUE on 3 September 2018.

Statements 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 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 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 profit or loss.

Publication of separate half-yearly condensed separate financial statements

Pursuant to § 62.3 of the Regulation of the Minister of Finance of 29 March 2018, 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, 3 September 2018