



**DIRECTORS' REPORT ON THE ACTIVITIES OF
ZUE CAPITAL GROUP**

between 1 January 2019 and 30 June 2019

Cracow, 20 August 2019

Abbreviations and definitions:

ZUE, Company, Issuer, Parent Company	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 in Poznań, VIII Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 5,866,600 paid up in full. 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 260,000 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 (Handelsregister B, HRB) maintained by the District Court in Dresden (Amtsgericht Dresden) 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 of 2017, item 1577, as amended).

Share capital details as at 30 June 2019.

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INTRODUCTION

This Report on Activities of ZUE Capital Group (the Group) between 1 January 2019 and 30 June 2019 contains the information whose scope has been set out in § 69.1.3 in connection with § 66.8.2-12 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by the issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent.

The Condensed Financial Statements of the Group and ZUE S.A., respectively, the elements of the extended consolidated report for the first half of 2019, have been prepared in accordance with regulations set out in the IAS/IFRS including, in particular, IAS 34 "Interim Financial Reporting."

OPERATIONAL INFORMATION

1. Organisation of the Group

1.1. Structure of the Group

At the end of the reporting period, the Group is composed of ZUE S.A. (the Parent 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 borrowing policy as well as the management of finances and human resources and the supply of materials. In addition, ZUE's task is to create a uniform trade and marketing policy of the Group and to promote the Group's potential among its customers.

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

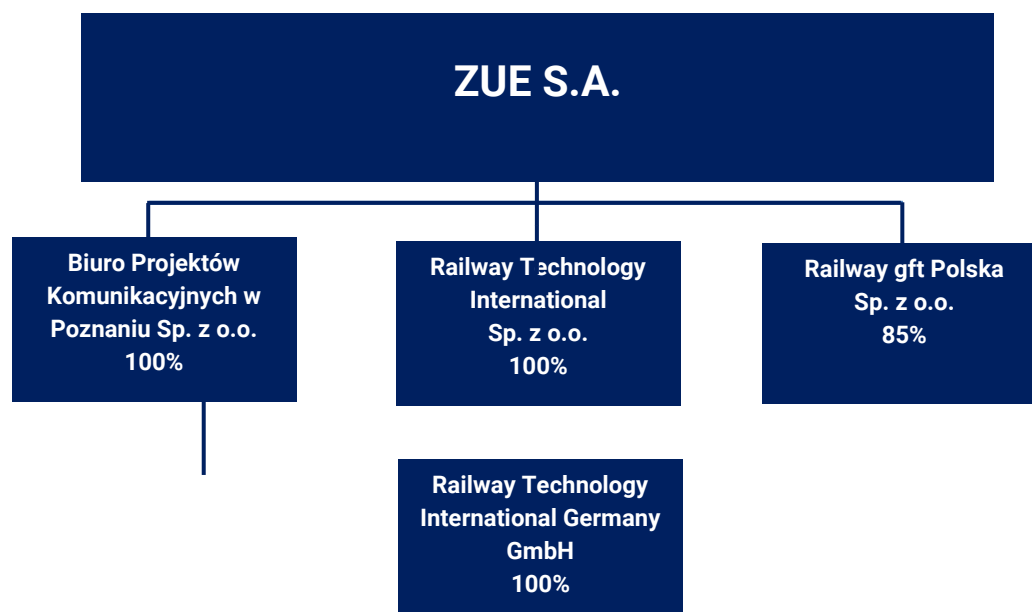
Subsidiary – Railway gft Polska Sp. z o.o. has been established under the deed of 21 October 2014 in the Notary's Office in Cracow, the Lubicz Street no. 3 (Rep. A no. 3715/2014). Cracow is the company's registered office. The company has been entered into the National Court Register maintained by the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

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

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

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

Structure of the Capital Group at this report preparation date:



1.2. Consolidated companies

Consolidated companies as at 30 June 2019:

Company name	Registered office	Interests as at			Consolidation method
		30 June 2019	31 December 2018	30 June 2018	
ZUE S.A.	Cracow	Parent Company			
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	85%	85%	70%	Full

ZUE is entitled to manage the financial and operating policy of BPK Poznań and Railway gft because it holds a 100% and an 85% interest, respectively, in these companies.

ZUE holds 100% of shares in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Sp. z o.o. is not consolidated as at 30 June 2019.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Germany GmbH is not consolidated as at 30 June 2019.

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

No changes to the Group's structure occurred between the beginning of 2019 and the date of this report's approval.

On 12 April 2019, the Extraordinary Shareholders Meeting of RTI resolved to increase the share capital of RTI from PLN 225 thousand to PLN 260 thousand through the creation of 700 new shares with a nominal value of PLN 50 each. All the new shares of the total nominal value of PLN 35 thousand were acquired by the existing shareholder; i.e. ZUE. The increase of the share capital of RTI was entered into the National Court Register on 26 April 2019.

2. Activities of the Capital Group

The Group operates in 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.

In 2019, the Group continues to provide rail and urban infrastructure construction services. The power infrastructure market is being observed and analysed.

Construction activities have been diversified recently to include civil structures so that the Company can deliver reinforced concrete projects, such as viaducts, bridges, passages, resistance walls or noise barriers, based on its skills and resources.

Design activities concerning urban and rail transport systems and commercial 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 financial information of operating segments is presented in the note 4.3.8 of the consolidated half-yearly report for the six months ended 30 June 2019.

3. Sales markets

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

Construction activities are conducted by ZUE mainly on the rail and urban infrastructure market. The table below presents the major construction contracts in progress.

Contract*	Contracting authority	Contract net value (PLN m) attributable to ZUE
Design services and construction works in connection with the following project: "Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section" executed as part of Eastern Poland Operational Programme.	PKP PLK S.A.	379
Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the following project: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section."	PKP PLK S.A.	372
Design and construction services in connection with the project no. 1: "Works on the Chabówka - Zakopane railway line no. 99" and the project no. 2: "Construction of railway link in Chabówka along the Sucha Beskidzka – Chabówka railway line no. 98 and the Chabówka – Zakopane railway line no. 99."	PKP PLK S.A.	330
Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section, Infrastructure and Environment Operational Programme (IEOP) 5.1-12.	PKP PLK S.A.	303
Provision of design services and completion of works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola."	PKP PLK S.A.	281
Completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF).	PKP PLK S.A.	270
Design and construction services in connection with the Infrastructure and Environment Operational Programme (IEOP) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section."	PKP PLK S.A.	210
Provision of design services and completion of construction works in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of 2014 Infrastructure and Environment Operational Programme (IEOP)."	PKP PLK S.A.	96
Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-16 "Improvement of capacity of E 20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the	PKP PLK S.A.	92

Łowicz Local Traffic Control Centre (LCS) section."		
Reconstruction of the tramway from the Lecha estate to the Żegrze roundabout (section II).	Poznańskie Inwestycje Miejskie Sp. z o.o.	82
Preparation of building and detailed designs and the completion of LOT B works as part of "design-build" project in connection with the Infrastructure and Environment Operational Programme (IEOP) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II.	PKP PLK S.A.	72
Provision of design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: "Investment project at the Medyka - Mościska II border crossing."	PKP PLK S.A.	64
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 task executed as part of the following project: "Upgrade of tramway tracks and the associated infrastructure."	City of Cracow	63
Extension of the Igołomska Street, the national road no. 79 – Stage 2 together with the infrastructure in Cracow and additional contract.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	61
Reconstruction of rail transport infrastructure along the Wojska Polskiego Street from the Magnuszewska terminus to the Wojska Polskiego, Szpitalna, Szarych Szeregów and Bełzy transport hub.	City of Bydgoszcz	52
Provision of design services and completion of construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section)."	PKP PLK S.A.	52
Modernisation of E30 railway line Kraków Medyka, the Biadolin – Tarnów section.	OHL ZS, a.s. S.A. Polish Branch	45
Design services and construction works in connection with the following project: "Construction of the Czarnca - Włoszczowa Płn. railway line no. 582."	PKP PLK S.A.	40
Protection of civil structures on the Dęblin – Lublin section as part of the project named: "Works on the Warszawa Wschodnia Osobowa – Dorohusk railway line no. 7 of the Warszawa – Otwock – Dęblin – Lublin section, stage I."	PKP Polskie Linie Kolejowe S.A.	30
Construction of a transport hub – the Zawodzie hub as part of the following project: "Katowice System of Integrated Transport Hubs – the Zawodzie hub."	Tramwaje Śląskie S.A.	34
Modernisation of OCL network, B1.G Krzewie - Kłodawa section (140.000-155.000) – construction works in the area of the Kutno Local Traffic Control Centre (LCS).	Budimex S.A.	33
Maintenance and repair of tram infrastructure in Cracow in the period 1.01.2018 - 30.09.2019.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	17

Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	Zarząd Dróg Miasta Krakowa	16
Reconstruction of tramway tracks along the Karmelicka Street, the Rajska Street – the Adama Mickiewicza Avenue section – construction works similar to the contract 990/ZIKiT/2018 of 3 September 2018.	City of Cracow	12

* Contracts whose net value exceeds PLN 10m.

Design services relating to urban and rail transport systems are provided by BPK Poznań to both investors and companies which execute "design-build" projects. The biggest customers of BPK Poznań in the reporting period included: PKP Polskie Linie Kolejowe S.A., Poznańskie Inwestycje Miejskie, BALZOLA SP. z o.o. and COLAS POLSKA Sp. z o.o.

Sales activities conducted by Railway gft include the sale of rails, track accessories, sleepers, rail fastening systems and aggregate.

4. Backlog

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

At this report preparation date, the net value of the contracted construction and assembly services is PLN 1,578m. This provides the Group with an ability to carry out the works in the period 2018-2021. As for design services, the net value of the signed contracts scheduled for performance in 2019-2020 is PLN 13m. The backlog relating to the supply of materials and equipment in 2019 is worth PLN 21m (net). ZUE signed a number of master agreements for the supply of key materials to secure the performance of the contracts.

At this report preparation date, ZUE has submitted the most economically advantageous tenders in connection with the tender procedures whose net value is approx. PLN 716m.

The companies within the Group participate in tenders. The Group's focus is predominantly on the Polish market.

5. Issuer's major achievements or failures

In the first half of 2019, both the Issuer and the Group reported a significant increase in sales revenue (ZUE by 57% and the Group by 50%). Positive values were reported at all levels both by the Company and the Group. Financial results are discussed in detail in section 18.

No major events other than operating events discussed in detail in section 10 occurred by this report preparation date.

6. Strategic objectives

The strategic objective in 2019-2021 is to take a maximum advantage of the current EU perspective.

The Group's strategic objectives include:

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

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

The strategic objectives are pursued taking into consideration the non-financial issues such as human rights, employees' rights, impact on local environment or environmental protection.

7. Development prospects

Rail infrastructure market

The Polish rail infrastructure construction market is witnessing the execution of the biggest ever railway modernisation project – the National Railway Programme (the "NRP") worth approx. PLN 70bn. The pending projects are worth approx. PLN 40bn¹. The entire programme is scheduled for completion by 2021. Project documents are also prepared for contracts funded under the next financial perspective. PKP PLK has revealed that in 2021 it will be ready to announce tenders for contracts worth PLN 30-40bn. This is to ensure the continuity of operations and prevent the occurrence of so-called peaks and decays between subsequent perspectives, which exerted a negative impact on the industry in the past. Apart from modernization projects, the next perspective will also cover the construction of new railway lines, including under the Central Communication Port project with a railway component (construction of the new lines of approx. 1,600 km).

Urban infrastructure market

Since 2018, the cities with tram infrastructure have demonstrated increased activity in announcing urban infrastructure tenders. In 2019, the market witnesses a greater number of orders. The urban market is the Company's major path of backlog diversification. ZUE aims to increase the share of the urban backlog by winning "build" and "maintain" contracts.

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

The factors believed to have an impact on the Group's financial results include:

• **Untimely settlement of liabilities to the Group by Contracting Authorities**

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

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

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

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

The growing costs of contract performance more and more often contribute to the cancellation of tender procedures because the submitted tenders go over the investors' budgets. This was seen in 2018 and is still observed in 2019 and relates to both rail and urban market.

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

The Group's construction activities involve the use of products and raw materials such as concrete, aggregates, asphalt, steel elements (including HV tram and rail traction network posts, lamp posts, rails or crossovers) and

¹ <https://www.rynek-kolejowy.pl/wiadomosci/bittel-jeszcze-trzy-umowy-i-przekroczymy-50-miliardow-92850.html>

copper and aluminium elements (including power cables, lines and contact wires) and, given a big number of machines, liquid fuels (including diesel oil and petrol). Different fees levied on materials, for instance duty, may also contribute to the increase in prices. Given the fluctuating prices of these materials, the Group companies are exposed to price risk.

- **Higher fees charged by subcontractors**

When performing its contracts, the Group subcontracts certain construction and assembly tasks to specialised companies. The increase in remuneration relating, *inter alia*, to the increase in minimum pay entails a risk relating to the estimation of costs incurred by subcontractors and, consequently, have a direct influence on the fees charged by subcontractors. This has a negative impact on the Group's financial results. A greater number of executed projects may have a negative influence on the Group's ability to engage certain subcontractors and may contribute to the increase in fees charged by them.

- **Unstable EUR/PLN exchange rate**

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

- **Outcome of court proceedings**

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

9. Risks believed by the Group to have an influence on the Group's future results

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

A large number of performed contracts and common problems relating to the growth of costs have contributed to the increase in credit risk for construction companies. Banks and credit security institutions have tightened the terms of insurance and financing. Long acceptance procedures accompanied by the obligation to pay subcontractors within a dozen or so days make companies use considerable resources to finance ongoing operations. The situation is made worse in 10% by unpaid materials waiting to be developed.

- **Risk related to logistics**

A risk of both rail and road contracts being performed at the same time and in the same area may limit transport capacity and result in higher fees for transport services.

- **Risk related to the failure to deliver construction sites by the dates specified in contracts**

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

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

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

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

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

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

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

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

In order to carry out orders and construction contracts, the Group enters into the contracts with suppliers, subcontractors, consortium members and investors. The contracts may be improperly performed by counterparties. For instance, tasks performed by a subcontractor may be faulty or in breach of a contract, or a justified claim may be dismissed by an investor. The occurrence of these risks may have a negative influence on the Group's financial results.

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

Construction contracts and work-for-hire contracts concluded by the Group provide for the obligation to provide performance bonds and defects liability bonds in the form of deposits or bonds issued by banks or insurance companies. Moreover, contracting authorities expect longer warranty periods. These contracts also provide for contractual penalties if a deadline for the completion of the tasks specified therein is missed. The Group cannot exclude the risk of missing a deadline for the completion of construction contracts or work-for-hire contracts or the failure to meet the deadline for the completion of warranty works connected with the removal of defects. Thus, a contracting authority may exercise its right to use the bonds or demand contractual penalties or damages. In addition, the Group cannot exclude the risk of disputes related to the failure to duly or timely perform the contracts. The factors could have a negative impact on the Group's financial results.

• **Risk related to bankruptcy of counterparties**

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

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

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

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

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

transactions). Consequently, changes of laws or their interpretation, which are disadvantageous to the Group, may have a negative impact on the Group's financial position.

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

The Group participates in public tenders and includes target contracts in its financial plans. A risk that a decision will be unfavourable or the tender will be cancelled by a contracting authority cannot be excluded. In addition, the announcing of tenders or awarding contracts by contracting authorities may be delayed. If the Group company participates in a tender together with a consortium member, it faces additional risk of the consortium member's withdrawal.

• **Risk related to growing competition**

The Group operates on the competitive market among companies from the rail and urban infrastructure construction, power industry and general infrastructure construction sector. Those entities may strengthen their market position in the future when they acquire other construction and repair companies and gain new sources of finance. The Group's activity may also be influenced by the emergence of new competitors attracted by positive growth prospects for the Polish infrastructure construction industry. Growing competition on the markets where the Group operates may have a negative impact on the Group's revenue and margins and, consequently, adversely influence its financial results.

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

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

• **Risk related to the EU funding of railway projects**

The long-term National Railway Programme (the "NRP") adopted in 2015 sets out the financial terms and the state's objectives concerning the execution of railway projects until 2023. The Programme is the extension of the Long-Term Railway Investment Programme until 2015 with the perspective until 2020. PKP PLK SA is expected to finance NRP with considerable use of the European Union funds. However, political changes in the European Union may influence the initial level of the funding of railway investments in Poland.

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

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

• **Risk related to weather conditions**

The Group's construction tasks related to urban, power and rail infrastructure cannot be done in unfavourable weather conditions. Due to low temperatures in autumn and winter, many tasks have to be slowed down or even stopped to meet technological regimes. If unfavourable weather conditions continue for too long, the situation may have a negative impact on the Group's financial results.

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

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

• **Risk related to interest rates**

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

• Risk related to unstable margins

Growing prices of materials, higher fees charged by subcontractors or higher salaries and wages for employees may be felt by entities delivering railway projects and influence original margins. The current system does not provide for the indexation of signed contracts as a result of which margins may become unstable.

The Issuer also identifies the risks relating to environmental, social and employee issues, respect for human rights and the fight against corruption. These risks are discussed in detail in the Directors' Report on the activities of ZUE S.A. and the Capital Group for 2018. Compared to the information provided in the annual report, no major changes regarding the risks have been identified.

10. Major events in the reporting period

Construction works:

Following the conclusion of the contract of 6 February 2019 between the Company and PKP Polskie Linie Kolejowe S.A. (PKP PLK) for the provision of design services and completion of works on the Warszawa Włochy – Ożarów Mazowiecki section, the railway line no. 3, in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16: Improvement of capacity of E20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the Łowicz Local Traffic Control Centre (LCS) section” of the net value of PLN 12m, the total net value of the contracts between the companies within the PKP PLK Group and the companies within the ZUE Group signed since 12 October 2018 amounted to approx. PLN 25.7m. **(Current report 3/2019)**

On 28 March 2019, the Company learnt about the cancellation by PKP PLK of the tender procedure for the project named: Preparation of design documentation and completion of construction works as part of the following contract: “Construction of the integrated transport system including a tunnel under the tracks of the Skarżysko Kamienna railway station.” The Company informed about the submission of the most economically advantageous tender in the current report 46/2018 of 29 October 2018. **(Current report 9/2019)**

On 26 June 2019, the Company learnt about the selection on the same date by PKP PLK of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the project named: Preparation of design documentation and completion of construction works in connection with the project named: LOT D – Works on the railway lines no. 131, 542 and 739 of the Rusiec Łódzki (km 137.500) – Zduńska Wola Karsznice (km 170.212) section as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-14 “Works on the railway line C-E 65 of the Chorzów Batory – Tarnowskie Góry – Karsznice – Inowrocław – Bydgoszcz – Maksymilianowo section.” The Company informed about the submission of the most economically advantageous tender in the current reports 51/2018 and 10/2019. Contracting Authority: PKP PLK. Net value of the tender submitted by the Company: PLN 582.7m. Gross value of the tender submitted by the Company: PLN 716.7m). Project completion date: 41 months. **(Current report 22/2019)**

On 27 June 2019, the Company entered into the construction contract with R.D.M. Śródmieście Sp. z o.o. with registered office in Cracow (the “Subcontractor”). Following the conclusion of the said contract, the total net value of the contracts between ZUE and the Subcontractor signed in the past year amounted to approx. PLN 15.4m. **(Current report 23/2019)**

Financial agreements:

On 22 January 2019, the Company entered into the agreement with CaixaBank S.A. Polish Branch with registered office in Warsaw. The Agreement was concluded for 12 months and could be extended, and provided for the bank guarantee limit of up to PLN 30m (the Limit) within which the Company could apply for bid bonds (up to the Limit), advance payment bonds (up to PLN 10m), performance bonds and defects liability bonds (up to PLN 10m). **(Current report 1/2019)**

On 1 March 2019, the Company received a signed annex to the multi-purpose revolving credit limit with Bank Polska Kasa Opieki S.A. with registered office in Warsaw (PEKAO) (the Annex). The Company informed about the said agreement in the current reports 20/2017 and 74/2017. Under the Annex, the term of the limit (PLN 100m) was extended until 30 November 2019 and the use thereof was limited to bank guarantees (up to the maximum amount

of the Limit) of any type (including, in particular, bid bonds, performance bonds and defects liability bonds) provided at the Company's request to secure the contracts carried out by the Company. **(Current report 5/2019)**

On 8 March 2018, the Company published preliminary financial results for 2018. **(Current report 6/2019)**

On 28 June 2019, the Company received the signed annexes to the agreements with mBank S.A. with registered office in Warsaw (the "Bank"). Under the agreements, the Company was provided by the Bank with banking products, including available bond lines and credits to finance the Company's day-to-day operations. On the basis of the said documents, the amount of the bond line granted under master agreement was set as PLN 120m and the term thereof was extended until 26 June 2020. **(Current report 24/2019)**

Corporate events:

On 8 May 2019, the Management Board of ZUE passed the resolution on recommendations to the Company's Ordinary General Meeting for covering the net loss for the financial year 2018 of PLN 64m from capital reserve and reserve funds. **(Current reports 11/2019 and 15/2019)**

On 6 June 2019, the Company's Ordinary General Meeting resolved to cover the net loss for the financial year 2018 of PLN 64m from capital reserve and reserve funds and to appoint the Company's Supervisory Board for the new 3-year term. **(Current reports 17/2019 and 18/2019)**

On 6 June 2019, the Company's Supervisory Board appointed members to the Company's Management Board for the new 3-year term. The composition of the Management Board remained unchanged. **(Current report 19/2019)**

11. Major events after the end of the reporting period

On 3 July 2019, the Company received a signed annex (the "Annex") to the contract with PKP PLK for the completion of design and construction services as part of the project named: "Construction of the Czarncza - Włoszczowa Płn. railway line no. 582" (the "Contract"). The Company informed about the Contract performance in the current report 81/2017 of 28 December 2017. Under the Annex, the project completion deadline was extended by approximately 7 months **(Current report 26/2019)**

On 19 July 2019, the Company published preliminary financial results for the first half of 2019. **(Current report 27/2019)**

On 22 July 2019, the Company learnt about the selection on the same date by the City of Szczecin (the "Contracting Authority") of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the project named: "Completion of construction works relating to the reconstruction of track and overhead contact system in the Wyszyńskiego hub and Szarych Szeregów Square." The Company informed about the submission of the most economically advantageous tender in the current report 8/2019. Net value of the tender submitted by the Company: PLN 36.5m. Gross value of the tender submitted by the Company: PLN 44.9m. Project completion date: 450 calendar days of the contract conclusion date. **(Current report 28/2019)**

On 31 July 2019, the Company and Elektrobudowa S.A. with registered office in Katowice (Elektrobudowa) entered into the trilateral settlement agreement with MPK (the "Settlement Agreement"). The Settlement Agreement was signed in connection with the suit filed with the District Court of Poznań against the Company and Elektrobudowa (the "Contractor") by Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu sp. z o.o. (MPK, the "Contracting Authority"). In their suit MPK demanded that ZUE and Elektrobudowa pay on a joint and several basis the total amount of approx. PLN 20.2m as contractual penalties plus statutory interest and the costs of the proceedings. The Company informed about the suit in the current report 4/2019. Under the Settlement Agreement, the Company and Elektrobudowa were obliged to pay on a joint and several basis PLN 2.2m to MPK in 4 instalments between October 2019 and January 2021. The Company and Elektrobudowa agreed that PLN 1m was attributable to ZUE and would be paid, as previously reported, from the provision established by the Company in connection with the proceedings. On the basis of the Settlement Agreement, all claims between the Contractor and the Contracting Authority relating to the project were waived excluding MPK's claims against the Contractor relating to guaranty and warranty. **(Current report 29/2019)**

On 8 August 2019, the Company learnt about the selection on the same date by Zarząd Dróg Miasta Krakowa (the "Contracting Authority") of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the project named: "Maintenance and repair of tram tracks in Cracow in 2019-2022." The

Company informed about the submission of the most economically advantageous tender in the current report 21/2019. Net value of the tender submitted by the Company: PLN 56.0m. Gross value of the tender submitted by the Company: PLN 68.9m. Project completion date: 1.10.2019 - 30.09.2022. **(Current report 30/2019)**

On 12 August 2019, the Company learnt about the selection on the same date by Zarząd Dróg Miasta Krakowa (the "Contracting Authority") of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the project named: "Maintenance and repair of tram infrastructure (traction electrical power engineering services) in Cracow in 2019-2022." The Company informed about the submission of the most economically advantageous tender in the current report 25/2019. Net value of the tender submitted by the Company: PLN 40.8m. Gross value of the tender submitted by the Company: PLN 50.2m. Project completion date: 1.10.2019 - 30.09.2022. **(Current report 31/2019)**

On 14 August 2019, the Management Board of ZUE learnt about the oral judgment (the "Judgment") delivered on the same date by the VII Commercial Division of the District Court in Białystok (the "Court"). The Court ordered that the judgment of 22 May 2019 delivered by the National Appeals Chamber (the "Chamber") (reported by the Company in the current report 14/2019) be changed by dismissing the entire appeal of the Company and ELKOL Sp. z o.o. with registered office in Bytom (the "Consortium") against the selection by Elektrownia Ostrołęka Sp. z o.o. (the "Contracting Authority") of the most economically advantageous tender submitted in the tender procedure concerning the reconstruction of the rail infrastructure system required to operate Elektrownia Ostrołęka C (the "Tender Procedure"). The Consortium cannot appeal against the abovementioned Judgment. **(Current report 32/2019)**

12. Transactions with related parties

Transactions with related parties at the Group included typical sales transactions on arm's length terms.

Section 4.7.10 "Transactions with related parties" of the Consolidated Half-Yearly Report for 6 Months Ended 30 June 2019 contains detailed information about the transactions with related parties.

13. Bonds, guarantees, credit lines and loans

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

As at 30 June 2019:

- The amount of the bonds issued by the Group to third parties: PLN 510,557 thousand;
- The amount of the bonds issued by the Company to third parties: PLN 500,116 thousand;
- The amount of unused bond lines at the Group: PLN 351,308 thousand (including PLN 20,000 thousand which may be allocated to revolving credit);
- The amount of unused bond lines at the Company: PLN 349,435 thousand (including PLN 20,000 thousand which may be allocated to revolving credit);
- The amount of unused credit lines at the Group: PLN 30,598 thousand (including PLN 20,000 thousand which may be allocated to bonds); and
- The amount of unused credit lines at the Company: PLN 30,000 thousand (including PLN 20,000 thousand which may be allocated to bonds).

In the first half of 2019, ZUE signed an annex to the Cooperation Agreement with mBank S.A. whereby the sublimit for revolving credits was raised to PLN 40,000 thousand and the agreement was renamed to Master Agreement. The credit is a non-revolving working credit facility to be repaid by October 2019. Credit agreements and the use thereof were presented in the Consolidated Half-Yearly Report for 6 Months Ended 30 June 2019.

At the end of the reporting period, the amount of the loans granted by ZUE is PLN 268 thousand and the amount of the loans granted at the Group is PLN 53 thousand.

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 amount of the guarantees as at 30 June 2019 is PLN 24,627 thousand, including PLN 19,500 thousand to guarantee the liabilities of Railway gft.

The Company guaranteed the liabilities of Railway gft in connection with the following bank agreements:

- Bond line master agreement with mBank S.A. – the guarantee of PLN 8m between July 2015 and August 2023;
- Revolving credit agreement with mBank S.A. – the guarantee of PLN 5.5m between August 2015 and November 2020;
- Revolving credit agreement with BNP Paribas S.A. – the guarantee of PLN 6m between December 2016 and August 2027.

No loans or bonds whose total value would be significant were provided in the first half of 2019 by the Parent Company or the subsidiaries to any single entity outside the Capital Group (or any subsidiary thereof).

CORPORATE INFORMATION

14. Governing bodies of ZUE

The composition of the Company's Management Board has not changed during the reporting period or until the date of preparation of these consolidated financial statements.

Composition of the Company's Management and Supervisory Boards at the date of approval of these financial statements:

Management Board:

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

Supervisory Board:

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

Audit Committee:

Mariusz Szubra	Audit Committee Chairperson
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 Act on Auditors, Audit Firms and Public Supervision (Journal of Laws of 2017, item 1089).

15. Shares and shareholding

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

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

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

The shares were bought back on the basis of the Resolution no. 4 passed by the Company's Extraordinary General Meeting on 8 December 2014 authorising the Management Board of ZUE S.A. to buy back own shares. The

transaction was described in detail in the note no. 25 of the Consolidated Financial Statements for the year ended 31 December 2015.

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

Shareholder	At the date of preparation of this half-yearly report; i.e. 20 August 2019		At the date of publication of the last interim report ⁽¹⁾	
	Number of shares/votes	% of the share capital/total number of votes	Number of shares/votes	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
METLIFE OFE	1,400,000 ⁽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	1,671,345 ⁽⁴⁾	7.26	1,190,437	5.17
Other	4,058,418 ⁽⁵⁾	17.62	4,539,326 ⁽⁵⁾	19.71
Total	23,030,083	100	23,030,083	100
<p>(1) Publication of the last interim report (Consolidated Report of the Group for 1Q 2019): 22 May 2019.</p> <p>(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.</p> <p>(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.</p> <p>(4) Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of ZUE held on 6 June 2019 provided in the current report 20/2019 of 12 June 2019.</p> <p>(5) Including 264,652 ZUE shares repurchased by the Company as part of the buy-back of own shares.</p>				

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

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

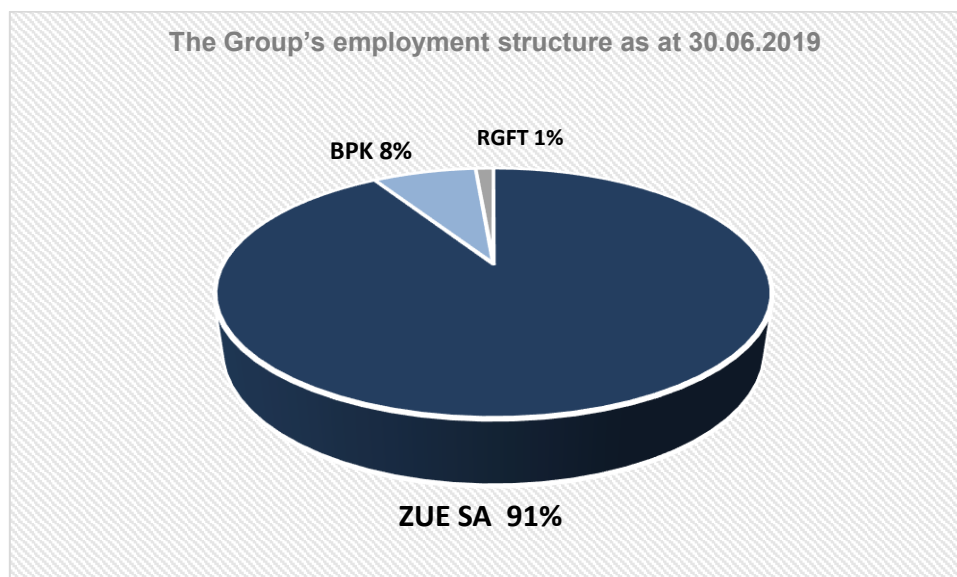
Shareholder	Position	Number of shares/votes at 20 August 2019	% of the share capital/total number of votes	Changes in shareholding since the preparation of the last interim report; i.e. 22 May 2019
Wiesław Nowak	Management Board President	14,400,320	62.53	None
Marcin Wiśniewski	Management Board Vice-President	2,300	0.01	None
Jerzy Czeremuga	Management Board Vice-President	136	< 0.01	None
Maciej Nowak	Management Board Vice-President	7,806	0.03	None
Michał Lis	Supervisory Board Member	661	< 0.01	None

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

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

17. Employment at the Group

At 30 June 2019, the Capital Group employed 919 people.



18. Court and administrative proceedings

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

Major pending court proceedings concerning claims:

Court case concerning the following project: "Construction of the tram depot in Poznań:"

On 7 February 2019, the Company received the suit for payment of 7 January 2019 filed with the District Court of Poznań by Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu sp. z o.o. (MPK, the "Contracting Authority," the "Plaintiff") against ZUE S.A. and Elektrobudowa S.A. of Katowice. In their suit MPK demanded that ZUE and Elektrobudowa pay on a joint and several basis the total amount of approx. PLN 20.2m as contractual penalties plus statutory default interest and the costs of proceedings.

The suit was based by the Plaintiff on the contract of 13 July 2011 between MPK and the Consortium of ZUE and Elektrobudowa for the construction of the FRANOWO tram depot in Poznań (the "Contract"). The Company informed about the conclusion of the Contract in the current report 39/2011. The works under the Contract were performed and completed by the Consortium in June 2015.

The Court requested the Parties to mediate and all the Parties approved of the mediation.

As a result of the mediation, the Company and Elektrobudowa entered into the settlement agreement with MPK whereby they were obliged to pay, on a joint and several basis, PLN 2.2m out of which PLN 1m was attributable to ZUE.

As a precaution, the Company created a financial provision relating to the said litigation. The Company informed thereof in the current report 7/2017 of 6 February 2017.

The said settlement agreement was submitted to the Court for approval. The Company informed about these circumstances in the current report 29/2019 of 31 July 2019.

Major pending 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. POLiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

The Defendant questioned the claims made by the Petitioner both in terms of their amount and legitimacy and filed a motion to dismiss the action. The Defendant filed a claim that the contractual fee charged by the Petitioners was too high in case the said motion for the dismissal was rejected. On 11 December 2017, the District Court of Warsaw delivered the judgment whereby it ordered that PKP PLK S.A. pay ZUE S.A. PLN 1,852,194.33 plus statutory interest from 18 August 2012 to the date of payment and dismissed the remaining claims. ZUE S.A. appealed against the judgment and demanded that all claims be considered. The Defendant also appealed against the judgment and demanded that all claims of the Petitioner be dismissed. On 6 June 2019, the Warsaw Court of Appeals considered the Defendant's appeal and dismissed all the claims. The Petitioner considers revocation.

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

On 30 December 2016, the consortium of:

- 1) OHL ŽS, a.s. (Leader);
- 2) Swietelsky Baugesellschaft m.b.H;
- 3) ZUE S.A. (hereinafter referred to as the "Consortium" or the "Contractor")

sued PKP Polskie Linie Kolejowe S.A. of Warsaw (the "Contracting Authority"). The lawsuit covered the claims relating to the performance of the following contract: "Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadolin – 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") was PLN 39.3m and included:

- 1) PLN 1.2m – costs relating to the requirement to extend the performance bond and insurance provided by the Contractor; and
- 2) PLN 38.1m – fixed costs relating to the performance of works over the extended period.

The Company's total share in the Amount was approx. PLN 15.7m.

On 11 March 2019, the Court delivered the partial judgment whereby it ordered that PKP Polskie Linie Kolejowe S.A. pay ZUE S.A. PLN 347,126.79 plus statutory default interest from 21 December 2016 to the date of payment and dismissed ZUE's claim concerning the payment of PLN 283,213.65 plus statutory interest from 21 December 2016.

The Parties appealed against this judgment. The Petitioner appealed against the dismissal of the claim of PLN 283,213.65 plus statutory interest and the Defendant appealed against the order to pay PLN 347,126.79 plus statutory interest.

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

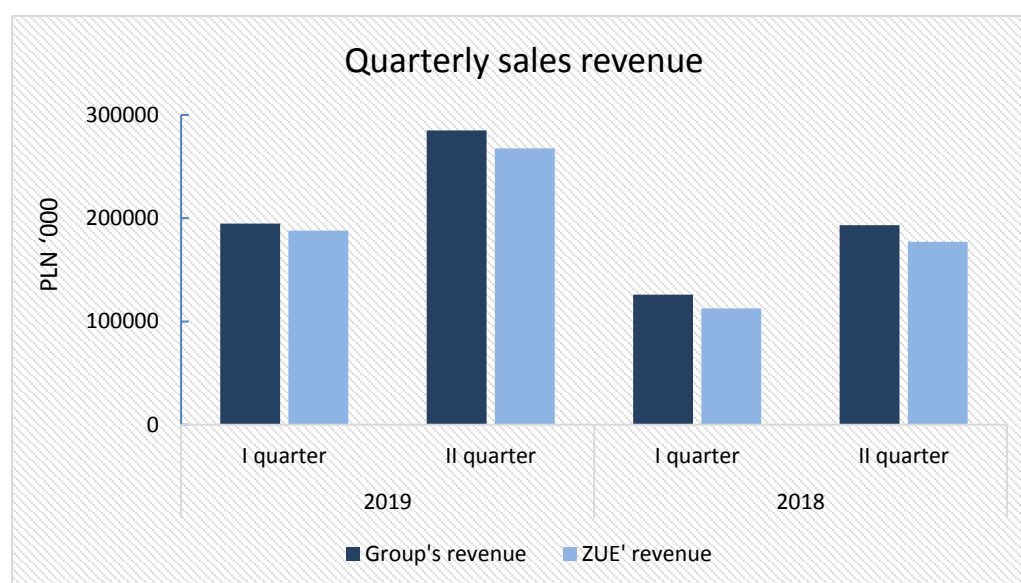
FINANCIAL INFORMATION

Almost the entire H1 2019 revenue (95%) of the Group was generated by the Company, mainly from railway construction contracts. However, the Company also performed urban construction contracts. ZUE takes an active part in the execution of the Polish railway modernisation project (the National Railway Programme until 2023 worth approx. PLN 70bn) and this fact is reflected in the considerable amount of revenues reported in the first half of 2019. The size of the Company's railway backlog is big and constantly growing through the acquisition of new orders. The contracts carried out by the Company include the railway contracts won in 2016/2017. These are the low-margin contracts and the reasons for this include the excessively growing costs of project execution beyond the Company's control and no real price indexation. The Company is making claims to change the amount of remuneration of the contractor involved in the performance of the railway contracts if there are risks unrelated to the contractor. The Issuer also performs and expands the urban "build" contract backlog. For these contracts, the gap between the outcome of the tender procedure and the commencement of construction works is short as a result of which the contractor's risks are significantly reduced.

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

In the first half of 2019, the sales revenue generated by the Group amounted to PLN 479,807 thousand – up by 50% compared with the sales revenue reported in the analogous period of 2018. The sales revenue reported by the Company amounted to PLN 455,740 thousand (a year-on-year increase by 57%).

In the first half of 2019, both the Group and the Company reported positive values at all profit levels.



Comparison of the results reported by ZUE and the Group:

Item	GROUP		ZUE	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Sales revenue	479,807	319,112	455,740	289,797
Gross profit (loss) on sales	13,345	12,131	11,354	9,869
Operating profit (loss) (EBIT)	2,613	1,464	2,709	1,164
EBITDA*	8,965	6,682	8,988	6,298
Pre-tax profit (loss)	2,622	1,521	3,042	1,609

Net profit (loss)	1,143	1,212	1,669	1,236
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* Operating profit + depreciation / amortisation.

Compared with the analogous period of 2018, the Group's gross profit on sales in the first half of 2019 grew by PLN 1,214 thousand; i.e. by 10% and the Company's gross profit on sales grew by PLN 1,485 thousand; i.e. by 15%.

The Group's operating profit/loss in H1 2019 improved over the year by PLN 1,149 thousand (by 78%). The analogous item reported by ZUE improved by PLN 1,545 thousand (by 133%).

The Group's net profit/loss in the period under analysis decreased over the year by PLN 69 thousand; i.e. by 6%. ZUE's net profit/loss increased year-on-year by PLN 433 thousand; i.e. by 35%.

The Group's general and administrative expenses in the period 1 January – 30 June 2019 increased y/y by 2% and reached PLN 10,699 thousand. The Company's general and administrative expenses in the reporting period decreased y/y by 1% to PLN 8,556 thousand.

Other operating income reported by the Group in H1 2019 decreased over the year by 74% and stood at PLN 259 thousand. Other operating income reported in the same period by the Company amounted to PLN 154 thousand – a year-on-year decrease by 80%). The results have been presented in detail in the note no. 4.3.3. of the consolidated financial statements and the note no. 2.1.3. of the separate financial statements.

The Group's other operating expenses stood at PLN 292 thousand – down by 76% when compared with the figure reported in the analogous period of 2018 (ZUE: PLN 243 thousand – a year-on-year decrease by 71%). The results have been presented in detail in the note no. 4.3.4. of the consolidated financial statements and the note no. 2.1.4. of the separate financial statements.

The Group's financial income of PLN 974 thousand improved over the year by 24%. The Company's financial income amounted to PLN 1,070 thousand – up by 22% when compared with the analogous period of 2018. The results have been presented in detail in the note no. 4.3.5. of the consolidated financial statements and the note no. 2.1.5. of the separate financial statements.

The Group's financial expenses amounted to PLN 965 thousand and increased by 32% compared to the first half of 2018. (ZUE: PLN 737 thousand – a year-on-year increase by 71%). The results have been presented in detail in the note no. 4.3.6. of the consolidated financial statements and the note no. 2.1.5. of the separate financial statements.

20. Discussion of major balance sheet items

The table below sets out the items of the consolidated and separate statement of financial position reported by the Group and ZUE at 30 June 2019 and the comparative information at 31 December 2018.

Item PLN '000	Group		ZUE	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
ASSETS				
Non-current assets				
Property, plant and equipment	52,348	104,700	49,477	101,815
Investment property	6,069	5,265	9,746	8,642
Intangible assets	233	8,616	192	8,115
Goodwill	31,172	31,172	31,172	31,172
Right-of-use assets	66,050		64,975	
Investments in non-consolidated subsidiaries	0	0	221	221
Long-term receivables	0	0	0	0
Retentions on construction contracts	9,509	9,720	9,239	9,463
Deferred tax assets	21,402	22,876	21,117	22,485
Advanced loans	0	0	149	0
Other assets	189	149	0	0
Total non-current assets	186,972	182,498	186,288	181,913
Current assets				
Inventories	45,040	48,720	36,265	37,311
Trade and other receivables	139,700	179,562	130,671	171,503

Measurement of long-term construction contracts	172,053	114,910	160,567	103,400
Retentions on construction contracts	3,285	3,021	3,218	2,938
Advance payments	17,006	15,275	17,208	16,581
Current tax assets	0	0	0	0
Other financial assets	0	0	0	0
Advanced loans	53	2,813	119	2,804
Other assets	1,207	1,040	893	764
Cash and cash equivalents	18,718	81,723	17,348	79,404
Total current assets	397,062	447,064	366,289	414,705
Total assets	584,034	629,562	552,577	596,618
Item	Group		ZUE	
PLN '000	30.06.2019	31.12.2018	30.06.2019	31.12.2018
EQUITY AND LIABILITIES				
Equity				
Share capital	5,758	5,758	5,758	5,758
Share premium account	93,837	93,837	93,837	93,837
Treasury shares	-2,690	-2,690	-2,690	-2,690
Retained earnings	50,853	49,717	50,983	49,337
Total equity attributable to shareholders of ZUE	147,758	146,622	-	-
Equity attributable to non-controlling interests	112	126	0	-
Total equity	147,870	146,748	147,888	146,242
Non-current liabilities				
Long-term loans and bank credits	0	0	0	0
Long-term lease liabilities	16,095	14,815	15,991	14,781
Retentions on construction contracts	15,407	11,371	14,977	10,721
Other financial liabilities	0	70	0	0
Liabilities under employee benefits	2,088	1,994	1,106	1,036
Deferred tax liabilities	0	0	0	0
Long-term provisions	10,298	8,152	9,970	7,872
Other liabilities	0	0	0	70
Total non-current liabilities	43,888	36,402	42,044	34,480
Current liabilities				
Trade and other payables	133,387	219,194	125,946	205,856
Accruals	93,853	62,428	85,786	55,020
Measurement of long-term construction contracts	7,937	7,047	7,896	6,980
Retentions on construction contracts	11,046	8,312	10,562	8,099
Advance payments	41,581	75,009	41,578	75,007
Short-term loans and bank credits	43,240	7,907	31,679	0
Short-term lease liabilities	13,178	13,001	13,084	12,963
Other financial liabilities	246	316	36	36
Liabilities under employee benefits	27,382	23,455	25,748	22,103
Current tax liabilities	0	4	0	0
Short-term provisions	20,426	29,739	20,330	29,832
Total current liabilities	392,276	446,412	362,645	415,896
Total liabilities	436,164	482,814	404,689	450,376
Total equity and liabilities	584,034	629,562	552,577	596,618

At 30 June 2019, the Group's total assets and liabilities stood at PLN 584,034 thousand. The Company's total assets and liabilities amounted to PLN 552,577 thousand.

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

Item	Change compared to 31-12-2018	Balance at 30-06-2019	Description
Assets			
Property, plant and equipment	-52,352	52,348	The change mainly results from the implementation of IFRS 16 discussed in the note 4.8.2. of the consolidated half-yearly report for 6 months ended 30 June 2019.
Intangible assets	-8,383	233	The change mainly results from the implementation of IFRS 16 discussed in the note 4.8.2. of the consolidated half-yearly report for 6 months ended 30 June 2019.
Right-of-use assets	66,050	66,050	The change mainly results from the implementation of IFRS 16 discussed in the note 4.8.2. of the consolidated half-yearly report for 6 months ended 30 June 2019.
Trade and other receivables	-39,862	139,700	Settlement of a part of the receivables for completed construction works.
Measurement of long-term construction contracts	57,143	172,053	More construction works carried out in connection with performed contracts.
Cash and cash equivalents	-63,005	18,718	Use of own resources to conduct operating activities.
Liabilities			
Trade and other payables	-85,807	133,387	Settlement of a part of completed construction works.
Accruals	31,425	93,853	Increase in provisions for subcontractors in connection with performed contracts.
Advance payments	-33,428	41,581	Settlement of certain advance payments in connection with the construction works progress.
Short-term loans and bank credits	35,333	43,240	Greater use of external financing.
Short-term provisions	-9,313	20,426	Release of certain provisions for losses on contracts in connection with the settlement of contracts.

21. Discussion of items of the statement of cash flows

The Group's cash flows from operating activities of PLN (-) 91,053 thousand were mainly influenced by changes in receivables, payables, retentions and inventories in connection with the performance of construction contracts.

The Group's cash flows from investing activities of PLN 1,603 thousand were mainly influenced by the purchase of non-current assets financed by own resources and the repayment of loans.

The Group's cash flows from financing activities of PLN 26,446 thousand were mainly influenced by the greater use of external financing and the settlement thereof and the decrease in liabilities under leases.

Item (PLN '000)	Group		ZUE	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018

Cash flows from operating activities	-91,053	-97,728	-86,501	-95,225
Cash flows from investing activities	1,603	-16,732	1,357	-16,789
Cash flows from financing activities	26,446	6,568	23,089	5,328
Total net cash flows	-63,004	-107,892	-62,055	-106,686
Foreign exchange gains (losses)	-1	33	-1	33
Cash and cash equivalents at the beginning of the period	81,723	117,748	79,404	116,144
Cash and cash equivalents at the end of the period	18,718	9,889	17,348	9,491
Depreciation and amortisation	6,352	5,218	6,279	5,134

22. Analysis of ratios

22.1. Debt ratio

Item	ZUE Group		ZUE		Calculation rules
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	
Net debt (PLN '000)	54,041	-45,614	43,442	-51,624	(Long- and short-term loans and bank credits and other financing sources + long- and short-term other financial liabilities) – cash and cash equivalents – other financial assets
Debt ratio	0.7	0.8	0.7	0.8	(non-current and current liabilities + provisions for liabilities) / total assets
Debt to equity ratio	2.9	3.3	2.7	3.1	(non-current and current liabilities) / equity
Equity to assets ratio	0.3	0.2	0.3	0.2	equity / total assets
Fixed capital to non-current assets ratio	1.0	1.0	1.0	1.0	(equity + non-current liabilities) / non-current assets
Short-term debt ratio	0.7	0.7	0.7	0.7	current liabilities / total assets
Long-term debt ratio	0.3	0.2	0.3	0.2	non-current liabilities / equity
Interest coverage ratio	-3.8	-3.1	-5.1	-3.4	EBIT / interest

22.2. Liquidity ratios

Item	ZUE Group		ZUE		Calculation rules
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	
Working capital	4,786	652	3,644	-1,191	current assets – current liabilities
Current ratio	1.0	1.0	1.0	1.0	current assets / current liabilities
Quick ratio	0.9	0.9	0.9	0.9	(current assets – inventory) / current liabilities
Cash ratio	0.05	0.2	0.05	0.2	cash and cash equivalents / current liabilities

22.3. Financing structure ratios

Item	ZUE Group		ZUE		Calculation rules
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	

Equity to assets ratio	0.3	0.2	0.3	0.3	<i>equity /total assets</i>
Equity to non-current assets	0.8	0.8	0.8	0.8	<i>equity /non-current assets</i>
Debt ratio	0.7	0.8	0.7	0.8	<i>(total assets - equity) / total assets</i>
Debt to equity ratio	2.9	3.3	2.7	3.1	<i>(total assets - equity) /equity</i>

22.4. Profitability ratios

Item	ZUE Group		ZUE		Calculation rules
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	
Gross margin	2.8%	-6.7%	2.5%	-8.1%	<i>gross profit / revenue</i>
EBITDA margin	1.9%	-8.0%	3.9%	-9.1%	<i>EBITDA / revenue</i>
EBIT margin	0.5%	-9.4%	0.6%	-10.5%	<i>EBIT / revenue</i>
Gross margin	2.7%	-6.7%	2.5%	-8.1%	<i>gross profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
Net margin	0.2%	-7.50%	0.4%	-8.4%	<i>net profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
ROA	0.2%	-9.90%	0.3%	-10.7%	<i>net profit / total assets</i>
ROE	0.78%	- 29.9%	1.14%	-30.5%	<i>net profit / equity</i>

23. Discussion of results reported by segments

The total amount of revenue generated by the Group in the first half of 2019 is PLN 479,807 thousand. The largest portion of the Group's revenue is derived from construction activity.

Item (PLN '000)	Construction	Sales	Design	Exclusions	Total
Sales revenue	455,740	27,872	5,158	-8,963	479,807
Gross profit on sales	11,354	1,190	554	247	13,345
Net profit	1,669	-152	-611	237	1,143

In the first half of 2019, Railway gft conducting sales activities and BPK Poznań conducting design activities reported positive gross results and negative net results.

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

The Company did not publish any financial projections for the financial year 2019.

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

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

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

The Management Board of ZUE believe that there is no information significant for the assessment of its staff, economic and financial position, profit or loss or any changes therein, or information significant for the assessment of the Company's or the Group's ability to perform their obligations other than presented in this report or the financial statements for H1 2019.

STATEMENT BY THE MANAGEMENT BOARD OF ZUE S.A.

27. Statement of compliance

The Management Board of ZUE state that according to their best knowledge, the half-yearly condensed financial statements for H1 2019 and the comparative information have been prepared in accordance with applicable accounting principles and give a true and fair view of the economic and financial position of both the Company and the Group and their financial performance. The report on activities contains a true view of the Group's development and achievements and the Group's standing, including the description of fundamental risks and threats.

Wiesław Nowak – Management Board President

Anna Mroczek – Management Board Vice-President

Jerzy Czeremuga – Management Board Vice-President

Maciej Nowak – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-President

Cracow, 20 August 2019