



ZUE Capital Group

**CONSOLIDATED HALF-YEARLY REPORT
FOR 6 MONTHS ENDED 30 JUNE 2019**

Cracow, 20 August 2019

Contents of the consolidated half-yearly report:

- I. Selected financial information of ZUE Capital Group.
- II. Selected financial information of ZUE S.A.
- III. Condensed Consolidated Financial Statements of ZUE Capital Group and Notes to the Financial Statements.
- IV. Condensed Separate Financial Statements of ZUE S.A. and Notes to the Financial Statements.

The following separate documents:

- Management Board Report.
- Auditor's Report on the Review of the Condensed Consolidated Financial Statements of ZUE Capital Group.
- Auditor's Report on the Review of the Condensed Separate Financial Statements of ZUE S.A.

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 (<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 of 2017, item 1577, as amended).

Share capital details as at 30 June 2019.

CONTENTS

I.	SELECTED FINANCIAL INFORMATION OF THE CAPITAL GROUP	7
II.	SELECTED FINANCIAL INFORMATION OF ZUE S.A.	9
III.	CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP	12
	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	12
	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	13
	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	15
	CONSOLIDATED STATEMENT OF CASH FLOWS	17
	NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF ZUE CAPITAL GROUP	18
1.	General information	18
1.1.	Composition of the Capital Group	18
1.2.	Consolidated companies	19
1.3.	Changes in the Group's structure in 2019 and their consequences	19
1.4.	Activities of the Capital Group	19
1.5.	Financial and reporting currency	20
2.	Operational information	20
2.1.	Issuer's major achievements or failures in the reporting period	20
2.2.	Major events after the end of the reporting period	20
2.3.	Bonds, guarantees, credit limits and advanced loans	21
2.4.	Type and amount of items influencing assets, liabilities, equity, net profit or cash flows which are unusual in terms of type, amount or frequency	22
2.5.	Seasonal and cyclical nature of the Group's operations	22
3.	Corporate information	22
3.1.	Governing bodies of the Parent Company	22
3.2.	Structure of the share capital	23
3.3.	Treasury shares	23
3.4.	Shareholders of the Parent Company	23
3.5.	Shares and powers of members of the management and supervisory boards	24
3.6.	Other information significant for the assessment of the Issuer's position	24
3.7.	Issue and redemption of debt and equity securities	24
3.8.	Dividend	24
4.	Financial information	24
4.1.	Factors and events with significant influence on the Group's results in the first half of 2019	24
4.2.	Statement by the Management Board of ZUE on financial projections	27
4.3.	Notes to the statement of comprehensive income	27
4.3.1.	Revenue	27
4.3.2.	Operating expenses	27
4.3.3.	Other operating income	28
4.3.4.	Other operating expenses	28
4.3.5.	Financial income	29
4.3.6.	Financial expenses	29
4.3.7.	Corporate income tax	30
4.3.8.	Operating segments	31
4.4.	Contracts, retentions, provisions, advance payments and accruals	34
4.4.1.	Construction contracts	34
4.4.2.	Retentions on construction contracts	34
4.4.3.	Provisions	35
4.4.4.	Advance payments	36
4.4.5.	Accruals	36
4.5.	Trade and other receivables and payables	36
4.5.1.	Trade and other receivables	36
4.5.2.	Trade and other payables	37
4.6.	Debt and management of capital and liquidity	37
4.6.1.	Loans and bank credits	37
4.6.2.	Lease liabilities	42

4.6.3.	Management of capital	42
4.6.4.	Cash and cash equivalents	42
4.7.	Other notes to the financial statements	44
4.7.1.	Property, plant and equipment	44
4.7.2.	Investment property	47
4.7.3.	Intangible assets	50
4.7.4.	Right-of-use assets	52
4.7.5.	Goodwill	54
4.7.6.	Purchase and sale of property, plant and equipment and intangible assets	54
4.7.7.	Advanced loans	54
4.7.8.	Inventories	55
4.7.9.	Financial instruments	55
4.7.10.	Transactions with related parties	56
4.7.11.	Major proceedings before court, arbitration or public administration authority at the date of preparation of this report	57
4.7.12.	Tax settlements	58
4.7.13.	Contingent assets and contingent liabilities	59
4.7.14.	Liabilities incurred to purchase property, plant and equipment	60
4.7.15.	Discontinued operations	60
4.8.	Other notes to the financial statements	60
4.8.1.	Use of the International Financial Reporting Standards	60
4.8.2.	Important accounting principles	61
4.8.3.	Sources of estimation uncertainty	65
5.	Approval of the condensed consolidated financial statements	68
6.	Signatures	68
IV.	CONDENSED SEPARATE FINANCIAL STATEMENTS OF ZUE S.A.	70
	SEPARATE STATEMENT OF COMPREHENSIVE INCOME	70
	SEPARATE STATEMENT OF FINANCIAL POSITION	71
	SEPARATE STATEMENT OF CHANGES IN EQUITY	73
	SEPARATE STATEMENT OF CASH FLOWS	74
	NOTES TO THE CONDENSED SEPARATE FINANCIAL STATEMENTS OF ZUE	75
1.	General information	75
1.1.	Information about the Company	75
1.2.	Activities of the Company	76
1.3.	Functional and reporting currency	76
2.	Financial information	77
2.1.	Notes to the statement of comprehensive income	77
2.1.1.	Revenue	77
2.1.2.	Operating expenses	77
2.1.3.	Other operating income	78
2.1.4.	Other operating expenses	78
2.1.5.	Financial income	78
2.1.6.	Financial expenses	79
2.1.7.	Corporate income tax	79
2.1.8.	Operating segment	81
2.2.	Contracts, retentions, provisions, advance payments and accruals	81
2.2.1.	Construction contracts	81
2.2.2.	Retentions on construction contracts	82
2.2.3.	Provisions	82
2.2.4.	Advance payments	84
2.2.5.	Accruals	84
2.3.	Trade and other receivables and payables	85
2.3.1.	Trade and other receivables	85
2.3.2.	Trade and other payables	85
2.4.	Debt and management of capital and liquidity	85
2.4.1.	Loans and bank credits	87
2.4.2.	Lease liabilities	88
2.4.3.	Management of capital	89
2.4.4.	Cash and cash equivalents	89
2.5.	Other notes to the financial statements	91

2.5.1.	Property, plant and equipment.....	91
2.5.2.	Investment property	95
2.5.3.	Intangible assets.....	98
2.5.4.	Right-of-use assets	100
2.5.5.	Goodwill	102
2.5.6.	Purchase and sale of property, plant and equipment and intangible assets	102
2.5.7.	Advanced loans	102
2.5.8.	Inventories	103
2.5.9.	Financial instruments	103
2.5.10.	Transactions with related parties.....	104
2.5.11.	Major proceedings before court, arbitration or public administration authority at the date of preparation of this report.....	105
2.5.12.	Tax settlements.....	105
2.5.13.	Contingent assets and contingent liabilities.....	106
2.5.14.	Liabilities incurred to purchase property, plant and equipment.....	106
2.5.15.	Discontinued operations	107
2.5.16.	Cyclical and seasonal nature of the Company's operations	107
2.5.17.	Issue and redemption of debt and equity securities.....	107
2.5.18.	Dividend	107
2.6.	Other notes to the financial statements	107
2.6.1.	Use of the International Financial Reporting Standards	107
2.6.2.	Important accounting principles	108
2.6.3.	Sources of estimation uncertainty	113
3.	Approval of the condensed separate financial statements	113
4.	Signatures	114

I. Selected financial information of the Capital Group

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

	Balance at 30-06-2019		Balance at 31-12-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	186,972	43,973	182,498	42,441
Current assets	397,062	93,382	447,064	103,968
Total assets	584,034	137,355	629,562	146,409
Equity	147,870	34,777	146,748	34,127
Non-current liabilities	43,888	10,322	36,402	8,466
Current liabilities	392,276	92,256	446,412	103,816
Total equity and liabilities	584,034	137,355	629,562	146,409

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

	Period ended 30-06-2019		Period ended 30-06-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Sales revenue	479,807	111,894	319,112	75,272
Cost of sales	466,462	108,782	306,981	72,411
Gross profit (loss) on sales	13,345	3,112	12,131	2,861
Operating profit (loss)	2,613	609	1,464	345
Gross profit (loss)	2,622	611	1,521	359
Net profit (loss) from continuing operations	1,143	267	1,212	286
Total comprehensive income	1,120	261	1,209	285

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

	Period ended 30-06-2019		Period ended 30-06-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-91,053	-21,234	-97,728	-23,052
Cash flows from investing activities	1,603	374	-16,732	-3,947
Cash flows from financing activities	26,446	6,167	6,568	1,549
Total net cash flows	-63,004	-14,693	-107,892	-25,450
Cash at the beginning of the period	81,723	19,005	117,748	28,231
Cash at the end of the period	18,718	4,402	9,889	2,267

Rules adopted to translate selected financial information into EUR:

Item	Exchange rate	Exchange rate on 30-06-2019	Exchange rate on 31-12-2018	Exchange rate on 30-06-2018
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2520	4.3000	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	4.2880	n/a	4.2395
"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	4.2520	4.3000	4.3616

II. Selected financial information of ZUE S.A.

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

	Balance at 30-06-2019		Balance at 31-12-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	186,288	43,812	181,913	42,305
Current assets	366,289	86,145	414,705	96,443
Total assets	552,577	129,957	596,618	138,748
Equity	147,888	34,781	146,242	34,010
Non-current liabilities	42,044	9,888	34,480	8,019
Current liabilities	362,645	85,288	415,896	96,719
Total equity and liabilities	552,577	129,957	596,618	138,748

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

	Period ended 30-06-2019		Period ended 30-06-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Sales revenue	455,740	106,282	289,797	68,356
Cost of sales	444,386	103,634	279,928	66,029
Gross profit (loss) on sales	11,354	2,648	9,869	2,327
Operating profit (loss)	2,709	632	1,164	275
Gross profit (loss)	3,042	709	1,609	380
Net profit (loss) from continuing operations	1,669	389	1,236	292
Total comprehensive income	1,646	384	1,233	291

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

	Period ended 30-06-2019		Period ended 30-06-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-86,501	-20,173	-95,225	-22,461
Cash flows from investing activities	1,357	316	-16,789	-3,960
Cash flows from financing activities	23,089	5,385	5,328	1,257
Total net cash flows	-62,055	-14,472	-106,686	-25,164
Cash at the beginning of the period	79,404	18,466	116,144	27,846
Cash at the end of the period	17,348	4,080	9,491	2,176

Rules adopted to translate selected financial information into EUR:

Item	Exchange rate	Exchange rate on 30-06-2019	Exchange rate on 31-12-2018	Exchange rate on 30-06-2018
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2520	4.3000	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	4.2880	n/a	4.2395
"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	4.2520	4.3000	4.3616



ZUE Capital Group

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2019

Cracow, 20 August 2019

III. Condensed consolidated financial statements of the Capital Group

Consolidated statement of comprehensive income

Continuing operations	Note no.	6 months ended 30-06-2019	6 months ended 30-06-2018
Sales revenue	4.3.1.	479,807	319,112
Cost of sales	4.3.2.	466,462	306,981
Gross profit (loss) on sales		13,345	12,131
General and administrative expenses	4.3.2.	10,699	10,451
Other operating income	4.3.3.	259	978
Other operating expenses	4.3.4.	292	1,194
Operating profit (loss)		2,613	1,464
Financial income	4.3.5.	974	786
Financial expenses	4.3.6.	965	729
Pre-tax profit (loss)		2,622	1,521
Corporate income tax	4.3.7.	1,479	309
Net profit (loss) from continuing operations		1,143	1,212
Net profit (loss)		1,143	1,212
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		-23	-3
Actuarial gains (losses) relating to specific benefit schemes		-23	-3
Other total net comprehensive income		-23	-3
Total comprehensive income		1,120	1,209
Number of shares		23,030,083	23,030,083
Consolidated net profit attributable to:			
Shareholders of the parent		1,157	1,138
Non-controlling interests		-14	74
Net profit (loss) per share (PLN) attributable to shareholders of the parent (basic and diluted)		0.05	0.05
Total comprehensive income attributable to:			
Shareholders of the parent		1,134	1,135
Non-controlling interests		-14	74
Total comprehensive income per share (PLN)		0.05	0.05

Consolidated statement of financial position

	Note no.	Balance at 30-06-2019	Restated Balance at 31-12-2018
ASSETS			
Non-current assets			
Property, plant and equipment	4.7.1.	52,348	104,700
Investment property	4.7.2.	6,069	5,265
Intangible assets	4.7.3.	233	8,616
Right-of-use assets	4.7.4.	66,050	0
Goodwill	4.7.5.	31,172	31,172
Retentions on construction contracts	4.4.2.	9,509	9,720
Deferred tax assets	4.3.7.	21,402	22,876
Other assets		189	149
Total non-current assets		186,972	182,498
Current assets			
Inventories	4.7.8.	45,040	48,720
Trade and other receivables	4.5.1.	139,700	179,562
Measurement of long-term construction contracts	4.4.1.	172,053	114,910
Retentions on construction contracts	4.4.2.	3,285	3,021
Advance payments	4.4.4.	17,006	15,275
Current tax assets	4.3.7.	0	0
Advanced loans	4.7.7.	53	2,813
Other assets		1,207	1,040
Cash and cash equivalents	4.6.4.	18,718	81,723
Total current assets		397,062	447,064
Total assets		584,034	629,562

	Note no.	Balance at 30-06-2019	Restated Balance at 31-12-2018
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		50,853	49,717
Total equity attributable to shareholders of the parent company		147,758	146,622
Equity attributable to non-controlling interests		112	126
Total equity		147,870	146,748
Non-current liabilities			
Long-term loans and bank credits	4.6.1.	0	0
Non-current lease liabilities	4.6.2.	16,095	14,815
Retentions on construction contracts	4.4.2.	15,407	11,371
Other financial liabilities		0	70
Liabilities under employee benefits		2,088	1,994
Long-term provisions	4.4.3.	10,298	8,152
Total non-current liabilities		43,888	36,402
Current liabilities			
Trade and other payables	4.5.2.	133,387	219,194
Accruals	4.4.5.	93,853	62,428
Measurement of long-term construction contracts	4.4.1.	7,937	7,047
Retentions on construction contracts	4.4.2.	11,046	8,312
Advance payments	4.4.4.	41,581	75,009
Short-term loans and bank credits	4.6.1.	43,240	7,907
Current lease liabilities	4.6.2.	13,178	13,001
Other financial liabilities		246	316
Liabilities under employee benefits		27,382	23,455
Current tax liabilities	4.3.7.	0	4
Short-term provisions	4.4.3.	20,426	29,739
Total current liabilities		392,276	446,412
Total liabilities		436,164	482,814
Total equity and liabilities		584,034	629,562

Consolidated statement of changes in equity

	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 January 2019	5,758	93,837	-2,690	49,717	146,622	126	146,748
Change of interest in subsidiaries	0	0	0	0	0	0	0
Payment of 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	1,157	1,157	-14	1,143
Other net comprehensive income	0	0	0	-23	-23	0	-23
Other	0	0	0	2	2	0	2
Balance at 30 June 2019	5,758	93,837	-2,690	50,853	147,758	112	147,870
Balance at 1 January 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
Payment of 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 June 2018	5,758	93,837	-2,690	113,740	210,645	-17	210,628
Balance at 1 January 2018	5,758	93,837	-2,690	112,605	209,510	-91	209,419
Change of interest in subsidiaries	0	0	0	-19	-19	8	-11

For the Month Ended 30 June 2019		(P. IN '000, unless otherwise provided)						
Payment of 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	-62,794	-62,794	209	-62,585	
Other net comprehensive income	0	0	0	-75	-75	0	-75	
Balance at	31 December 2018	5,758	93,837	-2,690	49,717	146,622	126	146,748

Consolidated statement of cash flows

	6 months ended 30-06-2019	6 months ended 30-06-2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	2,622	1,521
Adjustments for:		
Depreciation and amortisation	6,352	5,218
Foreign exchange gains / (losses)	1	-33
Interest and share in profit (dividends)	632	398
(Gain) / loss on disposal of investments	-82	-128
Operating profit (loss) before changes in working capital	9,525	6,976
Change in receivables, measurement of contracts and retentions on construction contracts	-19,107	-48,685
Change in inventories	3,681	-16,420
Change in provisions and liabilities under employee benefits	-3,175	2,094
Change in payables, measurement of contracts and retentions on construction contracts, advance payments and accruals, excluding loans and bank credits and lease liabilities	-81,811	-41,495
Change in prepayments	-166	-198
Income tax paid / tax refund	0	0
NET CASH FROM OPERATING ACTIVITIES	-91,053	-97,728
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	156	743
Purchase of property, plant and equipment and intangible assets	-1,405	-14,386
Sale / (purchase) of financial assets in related parties	-35	-58
Advanced loans	-17	-3,247
Repayment of advanced loans	2,734	0
Interest received	170	216
NET CASH FROM INVESTING ACTIVITIES	1,603	-16,732
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	43,650	14,037
Repayment of loans and bank credits	-8,264	-683
Decrease in lease liabilities	-8,244	-6,321
Lease interest paid	-533	-345
Other interest paid	-163	-120
NET CASH FLOWS FROM FINANCING ACTIVITIES	26,446	6,568
TOTAL NET CASH FLOWS	-63,004	-107,892
Net foreign exchange gains / (losses)	-1	33
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	81,723	117,748
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:	18,718	9,889
- of limited availability	48	0

Notes to the condensed consolidated financial statements of ZUE Capital Group

1. General information

1.1. Composition of the Capital Group

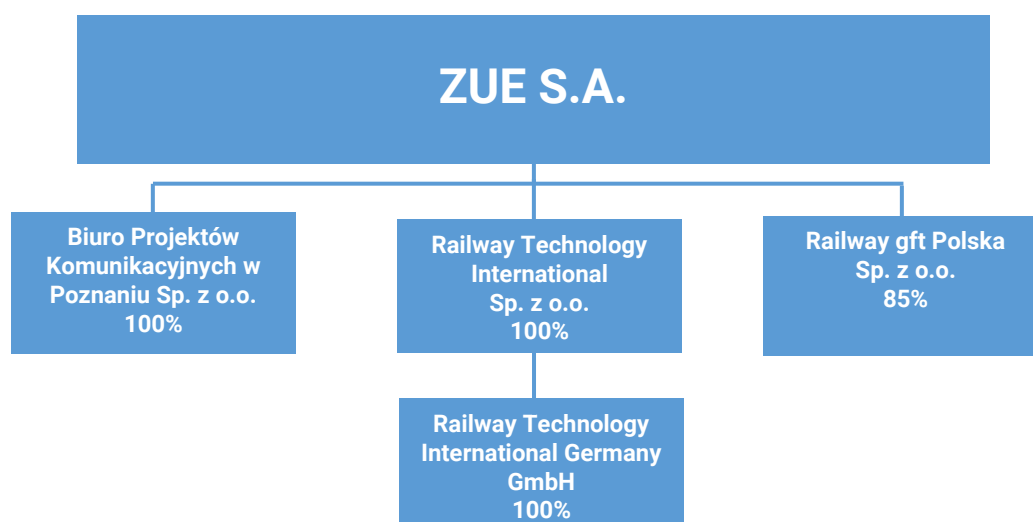
At the end of the reporting period, the Capital Group is composed of ZUE S.A. (the Parent Company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o. and Railway Technology International Germany GmbH (indirect subsidiary).

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, human resources and the supply of materials. In addition, ZUE's task is to create a uniform trade and marketing policy of the Capital Group and to promote the Group's potential among its customers.

Structure of the Capital Group 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 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.

1.2. Consolidated companies

Consolidated companies as at 30 June 2019:

Company name	Registered office	Shares as at		Consolidation method
		30 June 2019	31 December 2018	
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	85%	85%	Full

ZUE is entitled to manage the financial and operating policy of BPK Poznań and Railway gft because at 30 June 2019, it held a 100% and 85% interest, respectively, in the companies.

At 30 June 2019, ZUE held 100% of shares in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated.

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 information on the Group's economic and financial condition, Railway Technology International Germany GmbH was not consolidated as at 30 June 2019.

1.3. Changes in the Group's structure in 2019 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.

1.4. 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 supplement the abovementioned construction activities.

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

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

The financial information of operating segments is presented in the note 4.3.8.

1.5. Financial and reporting currency

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

2. Operational information

2.1. Issuer's major achievements or failures in the reporting period

In the first half of 2019, both the Company and the Group reported a significant increase in sales revenue (by 57% for the Company and by 50% for the Group). Positive values were reported at all levels both by the Company and the Group.

Financial results are discussed in detail in the note 4.1.

No major events other than operating events discussed in detail in section 10 of the H1 Management Board Report occurred by this report preparation date.

2.2. 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 Pln. 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)**

2.3. Bonds, guarantees, credit limits and advanced 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.

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).

2.4. Type and amount of items influencing assets, liabilities, equity, net profit or cash flows which are unusual in terms of type, amount or frequency

No unusual factors or events with significant influence of the results other than specified in HI 2019 Management Board Report occurred in the reporting period.

2.5. Seasonal and cyclical nature of the Group's operations

The seasonality of production and sales is a distinctive feature of the construction and assembly operations. The main factors influencing the amount of 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 conditions of the National Railway Programme and the current EU perspective. Projects on the urban market depend on the budgetary objectives of local self-governments.

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

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

3. Corporate information

3.1. Governing bodies of the Parent Company

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, as amended).

3.2. Structure of the share capital

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

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

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

3.4. Shareholders of the Parent Company

According to the information held, the Parent Company had the following shareholding structure at the date of preparation of these financial statements:

Shareholder	Number of shares/votes at 20 August 2019	% of the share capital/total number of votes	Number of shares/votes at the date of publication of the last interim report ⁽¹⁾	% 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 ⁽⁴⁾	5.17
Other	4,058,418 ⁽⁵⁾	17.62	4,539,326 ⁽⁵⁾	19.71
Total	23,030,083	100	23,030,083	100

(1) Publication of the last interim report (Consolidated Report of the Group for the first quarter of 2019): 22 May 2019.

(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 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.

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

3.5. Shares and powers of members of the management and supervisory boards

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

Shareholder	Position at ZUE	Number of shares/votes at 20 August 2019	% of share capital/total number of votes	Changes in shareholding since the publication of the last interim report; i.e. since 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 publication of the last interim report or the date of preparation of 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 other than presented in this report occurred in the reporting period.

3.7. Issue and redemption of debt and equity securities

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

3.8. Dividend

No dividend was paid the Company in the reporting period.

On 6 June 2019, the Ordinary General Meeting of the Company resolved to cover the loss for the financial year 2018 of PLN 64,050 in the following way:

- 1) the net loss for the financial year 2018 of PLN 39,435 thousand would be covered from capital reserve; and
- 2) the net loss for the financial year 2018 of PLN 24,615 thousand would be covered from reserve funds.

4. Financial information

4.1. Factors and events with significant influence on the Group's results in the first half of 2019

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 and 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.

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	ZUE		Group	
	30-06-2019	30-06-2018	30-06-2019	30-06-2018
Sales revenue	455,740	289,797	479,807	319,112
Gross profit (loss) on sales	11,354	9,869	13,345	12,131
Operating profit (loss) (EBIT)**	2,709	1,164	2,613	1,464
EBITDA***	8,988	6,298	8,965	6,682
Pre-tax profit (loss)	3,042	1,609	2,622	1,521
Net profit (loss)	1,669	1,236	1,143	1,212

* Operating profit + depreciation / amortisation.

** EBIT, EBITDA measures unspecified by the IFRS.

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.

Discussion of major balance sheet items

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

Factors with the biggest influence of the Group's total assets and liabilities:

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.
Intangible assets	-8,383	233	The change mainly results from the implementation of IFRS 16 discussed in the note 4.8.2.
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.
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.

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.

	ZUE		Group	
	Period ended 30-06-2019	Period ended 30-06-2018	Period ended 30-06-2019	Period ended 30-06-2018
Cash flows from operating activities	-86,501	-95,225	-91,053	-97,728
Cash flows from investing activities	1,357	-16,789	1,603	-16,732
Cash flows from financing activities	23,089	5,328	26,446	6,568
Total net cash flows	-62,055	-106,686	-63,004	-107,892
Cash and cash equivalents at the beginning of the period	79,404	116,144	81,723	117,748
Cash and cash equivalents at the end of the period	17,348	9,491	18,718	9,889

Discussion of the results reported by segments

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

	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/loss	1,669	-152	-611	237	1,143

In the first half of 2019, both Railway gft (sales activities) and BPK Poznań (design activities) reported positive gross values and negative net values.

The note 4.3.8. contains more information about individual segments.

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

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

4.3. Notes to the statement of comprehensive income

4.3.1. Revenue

	Period ended 30-06-2019	Period ended 30-06-2018
Revenue from construction contracts	450,397	288,043
Revenue from the provision of services	6,755	5,749
Revenue from the sale of goods, raw and other materials	22,655	25,320
Total	479,807	319,112

The Group recognises revenue from design and construction activities under revenue from construction contracts.

The Group's sales revenue in the period 1 January – 30 June 2019 amounted to PLN 479,807 thousand and increased by 50% over the revenue reported in the analogous period of 2018.

The Group operated in Poland in the first half of 2019. In addition, the Group generated revenue of PLN 244 thousand from the sale of materials to Russia and Germany.

Concentration of revenue exceeding 10% of total sales revenue

	Period ended	
	30-06-2019	30-06-2018
Counterparty A	252,909	159,502
Counterparty B	53,389	

4.3.2. Operating expenses

	Period ended 30-06-2019	Period ended 30-06-2018
Change in products	-1,600	-1,012
Depreciation and amortization	6,352	5,218
Consumption of materials and energy, including:	143,629	166,939
- consumption of materials	139,945	165,545
- consumption of energy	3,684	1,394
Contracted services	237,058	72,788
Costs of employee benefits	56,336	41,935
Taxes and charges	740	818
Other expenses	7,998	5,237
Value of goods and materials sold	26,648	25,509
Total	477,161	317,432

	Period ended 30-06-2019	Period ended 30-06-2018
Cost of sales	466,462	306,981
General and administrative expenses	10,699	10,451
Total	477,161	317,432

The Group's general and administrative expenses in the period 1 January – 30 June 2019 amounted to PLN 10,699 thousand and increased by 2% when compared with the Group's general and administrative expenses reported in the first half of 2018.

Depreciation and amortisation

	Period ended 30-06-2019	Period ended 30-06-2018
Depreciation of property, plant and equipment	3,719	4,802
Depreciation of right-of-use assets	2,381	0
Amortisation of intangible assets	64	248
Depreciation of investments in real property	188	168
Total	6,352	5,218

4.3.3. Other operating income

	Period ended 30-06-2019	Period ended 30-06-2018
Gain on disposal of assets:	82	128
Gain on disposal of non-current assets	82	128
Other operating income:	177	850
Damages and penalties	24	48
Release of allowances for receivables	9	37
Refund of the costs of court proceedings	15	585
Release of provisions for court cases	0	86
Release of write-downs of inventories	75	32
Other	54	62
Total	259	978

In order to make the financial statements clearer, rein voices and damages have been jointly presented by the Group companies (income and expenses according to their netted balance).

4.3.4. Other operating expenses

	Period ended 30-06-2019	Period ended 30-06-2018
Loss on disposal of assets:	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses:	292	1,194
Donations	2	16
Damages and penalties	2	480
Allowances for receivables	206	444

Costs of litigations	38	242
Other	44	12
Total	292	1,194

In order to make the financial statements clearer, reinvoices and damages have been jointly presented by the Group companies (income and expenses according to their netted balance).

4.3.5. Financial income

	Period ended 30-06-2019	Period ended 30-06-2018
Interest income	168	428
Interest on bank deposits	102	304
Interest on loan	40	48
Interest on receivables	26	76
Other financial income	806	358
Foreign exchange gains	7	3
Discount of long-term items	799	353
Other	0	2
Total	974	786

4.3.6. Financial expenses

	Period ended 30-06-2019	Period ended 30-06-2018
Interest expenses	830	532
Interest on bank credits	160	120
Interest on loans	3	3
Interest on leases	615	345
Interest on trade and other payables	52	64
Other financial expenses	135	197
Foreign exchange losses	32	81
Discount of long-term items	24	23
Write-down of investments in related parties	35	58
Other	44	35
Total	965	729

In 2019, Interest on leases includes the interest of PLN 207 thousand on recognised leases in accordance with the implementation of IFRS 16.

4.3.7. Corporate income tax

Corporate income tax recognised in the statement of comprehensive income

	Period ended 30-06-2019	Period ended 30-06-2018
Current income tax	0	0
Deferred tax	1,479	309
Total tax expense/income	1,479	309

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 the items of income or expense that are not taxable or deductible and the 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 a calendar year.

Income tax according to effective interest rate

	Period ended 30-06-2019	Period ended 30-06-2018
Gross profit (loss)	2,622	1,521
Income tax at the applicable rate of 19%	498	289
Effect of tax recognition of:	-1,870	-3,414
- Use of tax losses brought forward	87	94
- Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	8,905	10,981
- Revenue not classified as revenue under tax regulations and taxable revenue that is not balance sheet revenue	10,688	14,301
Revaluation of deferred tax assets (current year loss)	1,372	3,125
Deferred tax	1,479	309
Income tax according to effective tax rate	1,479	309
Effective tax rate	56%	20%

Current tax assets and liabilities

	Balance at 30-06-2019	Balance at 31-12-2018
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	0	4

Deferred tax

	Period ended 30-06-2019	Period ended 30-06-2018
Deferred tax balance at the beginning of the period	22,876	8,024
Temporary differences relating to deferred tax assets:	50,756	35,940
Provisions for expenses and accruals	26,998	14,471
Discount of receivables	236	355
Operating lease liabilities	2,835	1,436
Write-downs	1,526	1,513
Bonds and insurances accounted for over time	1,079	1,612
Tax work in progress	16,290	16,305
Measurement of long-term contracts	1,508	72
Other	284	176
Temporary differences relating to deferred tax liabilities:	46,156	39,006
Measurement of long-term contracts	32,690	28,182
Difference between the carrying and tax amount of property, plant and equipment and intangible assets	12,773	10,329
Discount of payables	690	483
Other	3	12
Unused tax losses and other tax credits carried forward:	16,802	10,782
Tax losses	16,802	10,782
Total temporary differences relating to deferred tax assets:	67,558	46,722
Total temporary differences relating to deferred tax liabilities:	46,156	39,006
Deferred tax balance at the end of the period	21,402	7,716
Change in deferred tax, including:	-1,474	-308
- recognised in income	-1,479	-309
- recognised in equity	5	1

The recognition of deferred tax in equity is a result of calculating tax on actuarial gains/losses presented in comprehensive income.

4.3.8. Operating segments

The Group's reporting is based on operating segments. 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 following rules are met jointly by the segments:

- 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 city transport systems, the construction and comprehensive modernisation of railway lines, power engineering and power electronics services and civil structures.

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. The Group settles sales and transfers between the segments based on current market prices like with transactions with third parties.

Operating segments' results in H1 2019:

	Construction	Sales	Design	Exclusions	Total
Sales revenue	455,740	27,872	5,158	-8,963	479,807
including:					
Revenue from external customers	455,347	21,135	221	3,104	479,807
Inter-segment revenues	393	6,737	4,937	-12,067	0
including:					
Revenue from construction contracts	447,198	0	5,158	-1,959	450,397
Revenue from the provision of services	7,021	1	0	-267	6,755
Revenue from the sale of goods, raw and other materials	1,521	27,871	0	-6,737	22,655
Gross profit	11,354	1,190	554	247	13,345
Financial income / expenses	333	-281	-55	12	9
Interest received	161	130	0	-121	170
Interest paid	-528	0	-5	0	-533
Pre-tax profit	3,042	-102	-611	293	2,622
Corporate income tax	1,373	50	0	56	1,479
Net profit	1,669	-152	-611	237	1,143
Depreciation and amortisation	6,279	7	75	-9	6,352
Property, plant and equipment	49,477	4	219	2,648	52,348
Non-current assets	186,288	430	1,184	-930	186,972
Total assets	552,577	17,550	17,393	-3,486	584,034
Total liabilities	404,689	16,821	17,771	-3,117	436,164

The Group operated in Poland in the first half of 2019. In addition, the Group earned revenue of PLN 244 thousand from the sale of materials to Russia and Germany.

Operating segments' results in H1 2018:

	Construction	Sales	Design	Exclusions	Total
Sales 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 contracts	283,655	0	7,038	-2,650	288,043
Revenue from the provision of services	5,604	145	0	0	5,749
Revenue from the sale of goods, raw and other materials	538	27,484	0	-2,702	25,320
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, the Group earned revenue of PLN 198 thousand from the provision of equipment services in Slovakia.

4.4. Contracts, retentions, provisions, advance payments and accruals

4.4.1. Construction contracts

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

	Period ended 30-06-2019	Period ended 30-06-2018
Revenue from long-term construction contracts	438,676	276,998
Costs of long-term construction contracts*)	443,130	266,079
Gross profit (loss) on long-term contracts	-4,454	10,919
	Balance at 30-06-2019	Balance at 31-12-2018
Assets (selected items)	201,856	142,968
- Measurement of long-term construction contracts	172,053	114,910
- Advance payments transferred in connection with performed contracts	17,009	15,317
- Retentions on construction contracts retained by customers	12,794	12,741
Liabilities (selected items)	199,747	201,236
- Measurement of long-term construction contracts	7,937	7,047
- Provisions for contract costs	93,436	61,990
- Advance payments received in connection with performed contracts	41,578	75,007
- Retentions on construction contracts retained for suppliers	26,453	19,683
- Provisions for warranty claims	12,010	10,122
- Provisions for expected losses on contracts	18,333	27,387

*) the item does not include the provision for losses on contracts or the provision for warranty claims.

The construction contracts include, in line with the Group's policy, construction and design activities.

The increase in the measurement of long-term construction contracts was influenced by the greater progress of construction works.

The provision for a loss on contracts is created if the budgeted costs exceed the total revenue under the contract.

The provisions for contract costs increased mainly after more subcontractors had been involved in the performance of contracts.

Presentation changes in the consolidated statement of financial position have also been made in comparative information. The changes have been made to make the statement clearer.

4.4.2. Retentions on construction contracts

	Balance at 30-06-2019	Balance at 31-12-2018
Retained by customers – to be repaid after 12 months	9,509	9,720
Retained by customers – to be repaid within 12 months	3,285	3,021
Total retentions on construction contracts retained by customers	12,794	12,741
Retained for suppliers – to be repaid after 12 months	15,407	11,371
Retained for suppliers – to be repaid within 12 months	11,046	8,312
Total retentions on construction contracts retained for suppliers	26,453	19,683

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.

4.4.3. Provisions

Change in provisions

Provisions	01-01-2019	Created	Used	Released	Reclassified	30-06-2019	Item
Long-term provisions:	10,146	2,646	259	0	-147	12,386	
Provisions for employee benefits	1,994	94	0	0	0	2,088	Liabilities under employee benefits (long-term)
Provisions for warranty claims	8,152	2,552	259	0	-147	10,298	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	44,187	9,785	6,250	10,413	147	37,456	
Provisions for employee benefits	14,448	9,473	5,932	959	0	17,030	Liabilities under employee benefits (short-term)
Provisions for warranty claims	1,970	0	124	281	147	1,712	Short-term provisions
Provision for loss on contracts	27,387	119	0	9,173	0	18,333	Short-term provisions
Other provisions	382	193	194	0	0	381	Short-term provisions
Total provisions:	54,333	12,431	6,509	10,413	0	49,842	

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

Provisions for employee benefits include the provisions for leaves, bonuses and retirement and pension gratuities.

(Long-term) liabilities under employee benefits include long-term liabilities under the company social benefits fund.

A provision for a loss on contracts is created if the budgeted costs exceed the total revenue under a contract.

Provisions for expected losses on contracts decreased following the settlement of the contracts.

Comparative information:

Provisions	01-01-2018	Created	Used	Released	Reclassified	31-12-2018	Item
Long-term provisions:	7,644	3,841	308	222	-809	10,146	
Provisions for employee benefits	1,888	231	1	4	-120	1,994	Liabilities under employee benefits (long-term)

Provisions for warranty claims	5,756	3,610	307	218	-689	8,152	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	14,426	45,767	13,385	3,430	809	44,187	
Provisions for employee benefits	10,892	16,709	12,657	616	120	14,448	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,702	10	706	725	689	1,970	Short-term provisions
Provision for loss on contracts	616	28,708	0	1,937	0	27,387	Short-term provisions
Other provisions	216	340	22	152	0	382	Short-term provisions
Total provisions:	22,070	49,608	13,693	3,652	0	54,333	

4.4.4. Advance payments

	Balance at 30-06-2019	Balance at 31-12-2018
Advance payments transferred in connection with performed contracts	17,009	15,317
Other advance payments	43	4
Allowances for advance payments	-46	-46
Total advance payments due	17,006	15,275

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

	Balance at 30-06-2019	Balance at 31-12-2018
Advance payments received in connection with performed contracts	41,578	75,007
Other advance payments	3	2
Total advance payments received	41,581	75,009

The received advance payments are the prepayments received by the Group on the basis of relevant provisions of the contracts with PKP PLK to perform construction contracts.

4.4.5. Accruals

	Balance at 30-06-2019	Balance at 31-12-2018
Provisions for contract costs	93,436	61,990
Other accruals	417	438
Total	93,853	62,428

Provisions for contract costs include provisions for the costs of subcontractors and provisions for the risks relating to the settlement of contracts.

4.5. Trade and other receivables and payables

4.5.1. Trade and other receivables

	Balance at 30-06-2019	Balance at 31-12-2018
Trade receivables	154,085	192,693
Loss allowances for trade receivables in connection with the increase in credit risk	-19,565	-17,654
Loss allowance for trade receivables – initial for expected credit losses	-119	-119
Receivables from the state budget other than corporate income tax	234	383
Other receivables	5,065	4,259
Total trade and other receivables	139,700	179,562

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

The change in allowances for trade receivables influencing the profit or loss includes the release of allowances PLN 9 thousand and the creation of allowances of PLN 206 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by the Group for the penalties and damages that were not the Group's revenue at the moment of issue.

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

	Balance at 30-06-2019	Balance at 31-12-2018
Counterparty A	84,230	147,395
Counterparty B	19,773	

The concentration of credit risk is limited due to the fact that the creditability of the abovementioned counterparty assessed, *inter alia*, by analysing their financial standing, is high and the fact that the said company meets additional requirements concerning the settlement of EU funds. The Group has carried out the 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 creditability is even higher. Accordingly, the Management Board of the Company believe there is no need to create additional provisions.

4.5.2. Trade and other payables

	Balance at 30-06-2019	Balance at 31-12-2018
Trade payables	117,232	188,156
Liabilities to the state budget other than corporate income tax	16,063	30,959
Other payables	92	79
Total trade and other payables	133,387	219,194

4.6. Debt and management of capital and liquidity

4.6.1. Loans and bank credits

	Balance at 30-06-2019	Balance at 31-12-2018
Long-term	0	0
Bank credits	0	0
Loans received	0	0
Short-term	43,240	7,907

Bank credits	42,980	7,651
Loans received	260	256
Total	43,240	7,907

Summary of credit agreements

No.	Bank	Description	Principal/limit according to the agreement as at 30-06-2019	Amount of available credits as at 30-06-2019	Use as at 30-06-2019	Interest	Repayment date
1	mBank S.A.	Overdraft	10,000	10,000	0	O/N WIBOR + margin	10-07-2020
2	mBank S.A.	Master agreement including: sublimit for bonds Non-revolving working credit facility	50,000 10,000 40,000	 0	31,679 0 31,679	3M WIBOR + margin	17-07-2020
3	BNP Paribas Bank Polska S.A. (i)	Multipurpose credit line agreement including: sublimit for bonds sublimit for working credit facilities	170,000 170,000 20,000	 20,000	90,463 90,463 0	1M WIBOR + margin	24-10-2019
4	BNP Paribas Bank Polska S.A.	Multipurpose credit line	600	287	313	1M WIBOR + bank margin	05-11-2019
5	mBank S.A.	Overdraft	500	2	498	ON WIBOR + bank margin	25-05-2020
6	mBank S.A.	Working credit facility for contract prefinancing	1,800	309	1,490	1M WIBOR + bank margin	20-03-2020
7	mBank S.A.	Working credit facility	5,000	0	5,000	1M WIBOR + bank margin	23-08-2019

8	BNP Paribas Bank Polska S.A.	Revolving credit agreement	4,000	0	4,000	3M WIBOR + bank margin	07-11-2019
Total amount of available credits at the Group				30,598			
Total debt under credits at the Group					42,980		
Total use for bonds at the Group					90,463		

(i) ZUE's ability to use the limit for both bank bonds and working credit facility.

The following amendments were made in the reporting period to certain credit agreements signed by the Group:

- mBank – Overdraft (no. 1) – Annex of 27 June 2019 whereby the credit was renewed for a further term.
- mBank – Master Agreement (no. 2) – Annex of 21 February 2019 whereby the Cooperation Agreement was renamed to the Master Agreement and the sublimit for working credit facilities was raised to PLN 40,000 thousand. On 22 February 2019, the working credit facility agreement was signed as part of the available sublimit under the Master Agreement.
- mBank – Overdraft (no. 5) – Annex of 3 June 2019 whereby the credit was renewed for a further term.
- mBank – Working credit facility for contract prefinancing (no. 6) – Annex of 24 June 2019 whereby the principal was reduced to PLN 1,800 thousand and the repayment date was extended until 20 March 2020.

Security and liabilities under credit agreements:

1. **Overdraft** – bill of exchange.
2. **Master agreement:**
 - a) Mortgage;
 - b) Borrower's statement on submission to enforcement.
3. **Multipurpose credit limit agreement:**
 - 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;
 - f) Borrower's statement on submission to enforcement.
4. **Multipurpose credit limit:**
 - a) Blank bill of exchange;
 - b) Borrower's statement on submission to enforcement.
5. **Overdraft:**
 - a) Blank bill of exchange;
 - b) ZUE's guarantees.
6. **Working credit facility for contract prefinancing:**
 - a) Blank bill of exchange;
 - b) ZUE's guarantees;
 - c) Assignment of claims.
7. **Working credit facility:**
 - a) ZUE's guarantees;
 - b) Registered pledge on inventories;

- c) Blank bill of exchange;
 - d) Statements on submission to enforcement;
 - e) Assignment of rights under insurance policy.
8. **Revolving credit agreement:**
- a) Bill of exchange;
 - b) Statements on submission to enforcement.

Comparative information:

No.	Bank	Description	Principal/limit according to the agreement as at 31-12-2018	Use as at 31-12-2018	Interest	Repayment date
1	mBank S.A. (i)	Overdraft	10,000	0	O/N WIBOR + margin	10-05-2019
2	mBank S.A.	Cooperation agreement	50,000	0	3M WIBOR + margin	17-07-2020
		including:				
		sublimit for bonds	50,000	0		
		sublimit for working credit facilities	30,000	0		
3	BGŻ BNP PARIBAS S.A.	Multipurpose credit line agreement	170,000	104,508	1M WIBOR + margin	24-10-2019
		including:				
		sublimit for bonds	170,000	104,508		
		sublimit for working credit facilities	20,000	0		
4	BGŻ BNP Paribas S.A. (iv)	Multipurpose credit line	600	313	1M WIBOR + margin	05-11-2019
5	mBank S.A. (iii)	Overdraft	500	496	O/N WIBOR + margin	07-06-2019
6	mBank S.A. (ii)	Working credit facility for contract prefinancing	2,000	842	1M WIBOR + margin	25-11-2019
7	mBank S.A.	Working credit facility	5,000	5,000	1M WIBOR + margin	23-08-2019
8	BGŻ BNP Paribas S.A.	Revolving credit agreement	4,000	1,000	3M WIBOR + margin	06-08-2019
Total use of credits at the Group				7,651		
Total use of bonds at the Group				104,508		

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

(ii) New agreement of 26 April 2018.

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

(iv) Annex of 15 November 2018 whereby the limit was raised to PLN 600 thousand.

4.6.2. Lease liabilities

	Balance at 30-06-2019	Balance at 31-12-2018
Non-current lease liabilities	16,095	14,815
Current lease liabilities	13,178	13,001
Total	29,273	27,816

The increase in lease liabilities in connection with the implementation of IFRS 16 as at 1 January 2019 was PLN 7,951 thousand. Detailed information is contained in the note 4.8.2.

The Group did not enter into any leasebacks in the reporting period.

4.6.3. Management of capital

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

	Balance at 30-06-2019	Balance at 31-12-2018
Long- and short-term loans and bank credits	43,240	7,907
Long- and short-term lease liabilities	29,273	27,816
Long- and short-term other financial liabilities	246	386
Total financial liabilities	72,759	36,109
Cash and cash equivalents	18,718	81,723
Net debt	54,041	-45,614
Equity	147,870	146,748
Net debt to equity ratio	36.55%	-31.08%

Positive net debt is due to the fact that total financial liabilities at the end of the first half of 2019 exceeded the amount of cash at the Group.

The Group uses own resources and credits to finance day-to-day operations.

4.6.4. Cash and cash equivalents

	Balance at 30-06-2019	Balance at 31-12-2018
Cash on hand and at banks	18,718	81,723
Bank deposits up to three months	0	0
Total	18,718	81,723

The cash decreased at the end of the first half of 2019 after it had been used for operating activities.

The cash as at 30 June 2019 does not include the amount of PLN 10,411 thousand kept on escrow accounts attributable to consortium members. The Group believes that the cash cannot be defined as assets and is not presented in the balance sheet at 30 June 2019. The cash kept on ZUE's escrow accounts as at 31 December 2018 was PLN 2,962 thousand.

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.

	ZUE		Group	
	Period ended 30-06-2019	Period ended 30-06-2018	Period ended 30-06-2019	Period ended 30-06-2018
Cash flows from operating activities	-86,501	-95,225	-91,053	-97,728
Cash flows from investing activities	1,357	-16,789	1,603	-16,732
Cash flows from financing activities	23,089	5,328	26,446	6,568
Total net cash flows	-62,055	-106,686	-63,004	-107,892
Cash and cash equivalents at the beginning of the period	79,404	116,144	81,723	117,748
Cash and cash equivalents at the end of the period	17,348	9,491	18,718	9,889

4.7. Other notes to the financial statements

4.7.1. 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 2019	0	26,220	52,061	85,735	2,291	166,307	302	0	166,609
Opening balance adjustment	0	0	-19,437	-36,016	0	-55,453	0	0	-55,453
Balance at 1 January 2019 after opening balance adjustment	0	26 220	32,624	49,719	2,291	110,854	302	0	111,156
Additions	0	52	963	2,063	11	3,089	512	0	3,601
Transfer to non-current assets	0	0	0	0	0	0	623	0	623
Sale/liquidation	0	0	588	300	42	930	0	0	930
Balance at 30 June 2019	0	26,272	32,999	51,482	2,260	113,013	191	0	113,204

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 2019	0	8,716	23,084	28,227	1,882	61,909	0	0	61,909
Opening balance adjustment	0	0	-1,964	-1,946	0	-3,910	0	0	-3,910
Balance at 1 January 2019 after opening balance adjustment	0	8 716	21,120	26,281	1,882	57,999	0	0	57,999
Elimination on disposal of assets	0	0	575	245	42	862	0	0	862
Depreciation expense	0	439	1,159	2,072	49	3,719	0	0	3,719

Balance at 30 June 2019	0	9,155	21,704	28,108	1,889	60,856	0	0	60,856
Carrying amount									
Balance at 1 January 2019	0	17,504	28,977	57,508	409	104,398	302	0	104,700
Balance at 1 January 2019 after opening balance adjustment	0	17 504	11,504	23,438	409	52,855	302	0	53,157
Balance at 30 June 2019	0	17,117	11,295	23,374	371	52,157	191	0	52,348

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

As at 30 June 2019, the amount of liabilities incurred to purchase property, plant and equipment was PLN 2,224 thousand. As at 30 June 2018, the gross carrying amount of fully depreciated property, plant and equipment still used by the Group was PLN 15,822 thousand.

Opening balance adjustment results from the implementation of IFRS 16.

Assets pledged as security

Note 4.7.13 deals with property, plant and equipment pledged as security for bank agreements. The Group's lease liabilities (note 4.6.2) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

Comparative information:

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	47	7,389	19,539	116	27,091	10,747	945	38,783
Presentation adjustment		0	11	0	-11	0	0	0	0	0
Transfer to non-current assets		0	0	0	0	0	0	13,647	4,650	18,297
Sale/liquidation		0	0	2,167	1,180	96	3,443	0	0	3,443
Balance at	31 December 2018	0	26,220	52,061	85,735	2,291	166,307	302	0	166,609

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	1,668	938	95	2,701	0	0	2,701
Depreciation expense		0	948	3,239	5,757	123	10,067	0	0	10,067
Balance at	31 December 2018	0	8,716	23,084	28,227	1,882	61,909	0	0	61,909

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	31 December 2018	0	17,504	28,977	57,508	409	104,398	302	0	104,700

4.7.2. Investment property

Investment property

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2019	126	4,251	4,594	0	0	0	8,971
Opening balance adjustment	0	992	0	0	0	0	992
Balance at 1 January 2019 after opening balance adjustment	126	5,243	4,594	0	0	0	9,963
Additions	0	0	0	0	0	0	0
Impairment	0	0	0	0	0	0	0
Sale/liquidation	0	0	0	0	0	0	0
Balance at 30 June 2019	126	5,243	4,594	0	0	0	9,963

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2019	0	1,656	2,050	0	0	0	3,706
Opening balance adjustment	0	0	0	0	0	0	0
Balance at 1 January 2019 after opening balance adjustment	0	1,656	2,050	0	0	0	3,706
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	42	146	0	0	0	188
Balance at 30 June 2019	0	1,698	2,196	0	0	0	3,894

Carrying amount

Balance at 1 January 2019	126	2,595	2,544	0	0	0	5,265
Balance at 1 January 2019 after opening balance adjustment	126	3 587	2,544	0	0	0	6,257
Balance at 30 June 2019	126	3,545	2,398	0	0	0	6,069

The investment property as at 30 June 2019 included the real estate in Kościelisko (plots no. 2001 and 2491). The investment property includes buildings together with the land and leasehold land.

The Group's investment property is held as freehold and leasehold interests.

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

Opening balance adjustment results from the implementation of IFRS 16.

Comparative information:

Gross value		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at	1 January 2018	126	4,251	4,582	0	0	0	8,959	0	0	8,959
Additions		0	0	12	0	0	0	12	0	0	12
Impairment		0	0	0	0	0	0	0	0	0	0
Sale/liquidation		0	0	0	0	0	0	0	0	0	0
Balance at	31 December 2018	126	4,251	4,594	0	0	0	8,971	0	0	8,971

Depreciation		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at	1 January 2018	0	1,490	1,878	0	0	0	3,368	0	0	3,368
Elimination on disposal of assets		0	0	0	0	0	0	0	0,00	0	0
Depreciation expense		0	166	172	0	0	0	338	0	0	338
Balance at	31 December 2018	0	1,656	2,050	0	0	0	3,706	0	0	3,706
Carrying amount											
Balance at	1 January 2018	126	2,761	2,704	0	0	0	5,591	0	0	5,591
Balance at	31 December 2018	126	2,595	2,544	0	0	0	5,265	0	0	5,265

4.7.3. Intangible assets

Structure of intangible assets

	Balance at 30-06-2019	Balance at 31-12-2018
Acquired concessions, patents, licenses and similar assets, including:	233	224
- Software	233	224
Other intangible assets, including:	0	8,392
- Leasehold	0	8,392
Total	233	8,616

Movements in intangible assets

	Leasehold land	Other intangible assets – software	Total
Gross value			
Balance at 1 January 2019	9,341	4,566	13,907
Opening balance adjustment	-9,341	0	-9,341
Balance at 1 January 2019 after opening balance adjustment	0	4,566	4,566
Additions	0	81	81
Sale/liquidation	0	57	57
Adjustment	0	-131	-131
Balance at 30 June 2019	0	4,459	4,459
Amortisation and impairment			
Balance at 1 January 2019	949	4,342	5,291
Opening balance adjustment	-949	0	-949
Balance at 1 January 2019 after opening balance adjustment	0	4,342	4,342
Amortisation expense	0	64	64
Sale/liquidation	0	57	57
Adjustment	0	-123	-123
Balance at 30 June 2019	0	4,226	4,226
Carrying amount			
Balance at 1 January 2019	8,392	224	8,616
Balance at 1 January 2019 after opening balance adjustment	0	224	224
Balance at 30 June 2019	0	233	233

No impairment losses were recognised by the Company in 2019 or 2018.

Opening balance adjustment results from the implementation of IFRS 16.

Comparative information:

	Leasehold	Other intangible assets – software	Total
Gross value			
Balance at 1 January 2018	9,341	4,539	13,880
Additions	0	31	31
Sale/liquidation	0	4	4
Balance at 31 December 2018	9,341	4,566	13,907
Amortisation and impairment			
Balance at 1 January 2018	827	3,966	4,793
Amortisation expense	122	380	502
Sale/liquidation	0	4	4
Balance at 31 December 2018	949	4,342	5,291
Carrying amount			
Balance at 1 January 2018	8,514	573	9,087
Balance at 31 December 2018	8,392	224	8,616

4.7.4. Right-of-use assets

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total right-of-use assets	Right-of-use assets under construction	Prepaid right-of-use assets under construction	TOTAL
Balance at 1 January 2019	0	0	0	0	0	0	0	0	0	0
Opening balance adjustment	812	13,835	932	19,475	36,699	0	71,753	0	0	71,753
Balance at 1 January 2019 after opening balance adjustment	812	13,835	932	19,475	36,699	0	71,753	0	0	71,753
Conclusion of new contracts	254	0	406	0	962	0	1,622	0	0	1,622
Changes resulting from the amendments to contracts	-17	0	0	0	0	0	-17	0	0	-17
Changes resulting from the shortening of contracts	0	0	-93	0	0	0	-93	0	0	-93
Adjustment	0	8	0	0	0	0	8	0	0	8
Balance at 30 June 2019	1,049	13,843	1,245	19,475	37,661	0	73,273	0	0	73,273

Depreciation	Freehold land	Leasehold 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 2019	0	0	0	0	0	0	0	0	0	0
Opening balance adjustment	0	948	0	1,964	1,947	0	4,859	0	0	4,859
Balance at 1 January 2019 after opening balance adjustment	0	948	0	1,964	1,947	0	4,859	0	0	4,859
Depreciation expense	230	87	294	555	1,215	0	2,381	0	0	2,381

Decrease in depreciation resulting from reclassification to discontinued operations	0	0	17	0	0	0	17	0	0	17
Balance at 30 June 2019	230	1,035	277	2,519	3,162	0	7,223	0	0	7,223
Carrying amount										
Balance at 1 January 2019	0	0	0	0	0	0	0	0	0	0
Balance at 1 January 2019 after opening balance adjustment	812	12,887	932	17,511	34,752	0	66,894	0	0	66,894
Balance at 30 June 2019	819	12,808	968	16,956	34,499	0	66,050	0	0	66,050

Opening balance adjustment results from the implementation of IFRS 16.

The amounts in Opening balance adjustment have been rounded up when compared with the consolidated financial statements for the first quarter of 2019.

4.7.5. 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 information 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 activity 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 information 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.

The goodwill of BPK Poznań is fully assigned to design activities.

At cost	Balance at 30-06-2019	Balance at 31-12-2018
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

Annual goodwill impairment test

After it had considered external circumstances influencing a long-term market capitalization of the Company below the carrying amount, the Group carried out tests for the impairment of goodwill. The impairment tests carried out at 31 December 2018 according to *IAS 36 Impairment of Assets* revealed no risks to the loss of the carrying amount of the Company's assets. As at 30 June 2019, the Group reviewed the assumptions used to carry out the test and decided that they were still up to date. Accordingly, there is no impairment of goodwill at the end of the reporting period.

The Group intends to carry out the test at the end of the year.

4.7.6. Purchase and sale of property, plant and equipment and intangible assets

The total capital expenditures disclosed in the cash flow statement in the reporting period amounted to PLN 1,405 thousand.

At 30 June 2019, the liabilities incurred to purchase property, plant and equipment amounted to PLN 1,808 thousand.

At 31 December 2018, the liabilities incurred to purchase property, plant and equipment amounted to PLN 506 thousand.

Major investments in property, plant and equipment made by the Group in the reporting period included:

- Complete overhauls of vehicles – PLN 1,910 thousand;
- Purchase of handcar – PLN 389 thousand;
- Purchase of cars – PLN 154 thousand;
- Purchase of server – PLN 154 thousand; and
- Purchase of compactor – PLN 33 thousand.

In the first half of 2019, the Group sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 56 thousand. In the first half of 2018, the Group sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 490 thousand.

4.7.7. Advanced loans

Balance at 30-06-2019	Balance at 31-12-2018
----------------------------------	----------------------------------

Loans advanced to related parties	76	80
Loans advanced to other parties	341	3,080
Impairment losses	-364	-347
Total	53	2,813

Advanced loans include principal and interest charged at the end of the reporting period. In the reporting period, the Group granted a special-purpose loan of PLN 17 thousand to a related party.

4.7.8. Inventories

	Balance at 30-06-2019	Balance at 31-12-2018
Goods, raw and other materials	42,901	47,987
Work-in-progress	1,939	534
Finished goods	200	199
Total	45,040	48,720

The security for liabilities created on inventories at 31 December 2018 and 30 June 2019 amounted to PLN 4,000 thousand.

4.7.9. 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 as at 30 June 2019.

Balance at 30 June 2019

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)	14,040	0	0	0	28,360
Trade receivables	154,085	0	0	0	0
Other financial liabilities	0	0	0	0	316
Advanced loans	53	0	0	0	0
Cash and cash equivalents	18,718	0	0	0	0
Loans and bank credits	0	0	0	0	43,240
Lease liabilities	0	0	0	0	29,273
Trade payables	0	0	0	0	117,232
Total	186,896	0	0	0	218,421

No changes to the classification of financial instruments or shifts between individual levels of goodwill occurred in the reporting period.

Balance at 31 December 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)	14,100	0	0	0	21,177
Trade receivables	192,693	0	0	0	0
Other financial liabilities	0	0	0	0	386
Advanced loans	2,813	0	0	0	0
Cash and cash equivalents	81,723	0	0	0	0
Loans and bank credits	0	0	0	0	7,907
Lease liabilities	0	0	0	0	27,816
Trade payables	0	0	0	0	188,156
Total	291,329	0	0	0	245,442

In the reporting period, the Group classified financial instruments according to IFRS 9 effective since 1 January 2018.

4.7.10. Transactions with related parties

The following sales transactions were entered into between the related parties in the reporting period:

	Receivables		Payables	
	Balance at		Balance at	
	30-06-2019	31-12-2018	30-06-2019	31-12-2018
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	3	0	0	0
Total	3	0	0	0

	Revenue		Purchases	
	Period ended		Period ended	
	30-06-2019	30-06-2018	30-06-2019	30-06-2018
RTI	2	2	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	5	0	0	0
Total	7	2	0	0

	Advanced loans		Financial income (interest)	
	Balance at		Period ended	
	30-06-2019	31-12-2018	30-06-2019	30-06-2018
RTI	0	21	0	0
RTI Germany	76	59	0	1
Wiesław Nowak	0	0	0	0
Total	76	80	0	1

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

In the reporting period, ZUE leased business establishment to RTI on the basis of the lease of 31 December 2015.

On 7 January 2019, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 4 thousand to be repaid by 20 December 2019. The loan was disbursed on 11 January 2019.

On 12 April 2019, the Extraordinary Shareholders Meeting decided about the increase of the share capital of RTI through ZUE's acquisition of the newly created RTI shares for PLN 35 thousand.

On 29 April 2019, RTI repaid the loans granted by ZUE plus interest. The repayment concerned the loan agreements of 26 May 2017, 7 December 2017 and 13 April 2018.

On 19 June 2019, ZUE and RTI Germany signed the annex no. 4 to the loan agreement of 31 May 2016 whereby the repayment date was extended until 20 December 2019.

Remuneration of key management personnel

	Period ended 30-06-2019	Period ended 30-06-2018
Management Board	1,847	2,286
Supervisory Board	123	244
Total	1,970	2,530

4.7.11. Major proceedings before court, arbitration or public administration authority at the date of preparation of this report

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

Below please find the major proceedings before the court or another authority concerning the Group's claims and liabilities.

Major pending court proceedings concerning liabilities:

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 Petitioner 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 Infrastructure; i.e. former BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymywania 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 Biadolino – 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 Biadolino – 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.

4.7.12. Tax settlements

Tax settlements and other areas of activity may be inspected by the administrative authorities authorised to impose harsh fines and penalties. The applicable laws are unclear and inconsistent because there are no references to established regulations in Poland. Common differences in opinions on legal interpretation of tax regulations both amongst state authorities and between state authorities and enterprises give rise to uncertainty and conflicts. Accordingly, the tax risk in Poland is much higher than that in the countries with more mature tax systems.

Tax settlements may be inspected within five years of the end of the year the tax was paid in. Additional tax liabilities may be imposed on the Group as a result of such inspections.

No significant or countable tax risks were recognised by the Group at 30 June 2019 or 31 December 2018.

Customs and tax inspection is being carried out at ZUE relating to the tax on income earned in 2014. Pursuant to Art. 82.3 of the Polish Act on National Tax Administration, the Company adjusted the previously submitted tax return and paid the tax of PLN 234 thousand plus interest. The adjustment concerned the acquisition of shares in exchange for claims. No inspection outcome is available at the date of preparation of this report.

4.7.13. Contingent assets and contingent liabilities

Contingent assets

	Balance at 30-06-2019	Balance at 31-12-2018
Bonds	71,669	74,700
Guarantees	55	55
Bills of exchange	5,338	2,140
Total	77,062	76,895

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 its claims relating to subcontracted construction services and the repayment of received advances.

Contingent liabilities

	Balance at 30-06-2019	Balance at 31-12-2018
Bonds	510,557	597,356
Guarantees	24,627	24,951
Bills of exchange	368,390	364,811
Mortgages	54,259	54,259
Pledges	22,663	23,927
Total	980,496	1,065,304

Contingent liabilities in the form of bonds for the benefit of third parties include, in particular, bid bonds, performance bonds, defects liability bonds, payment 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. The insurance companies and the 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 ZUE as the Parent Company.

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

Mortgages are additional security for the credit agreement with mBank S.A and the insurance agreement with PZU S.A. and the agreements between the related parties and BNP Paribas Bank Polska S.A.

Registered pledges were established in connection with annexes to the agreements between ZUE and BNP PARIBAS and PEKAO whereby limits had been raised and the agreement with BGK. The pledged assets include wagons, pile driver and maintenance train. In addition, a registered pledge was established in connection with the credit agreement with mBank entered into by a subsidiary. The pledge is on inventories.

4.7.14. Liabilities incurred to purchase property, plant and equipment

There were no major agreements concerning capital expenditures on property, plant and equipment at 30 June 2019 or 31 December 2018.

4.7.15. Discontinued operations

No operations were discontinued within the meaning of IFRS 5 in the six months ended 30 June 2019 or the six months ended 30 June 2018.

4.8. Other notes to the financial statements

4.8.1. Use of the 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 2019 as endorsed by the European Union (EU).

The half-yearly consolidated financial statements for the six months ended 30 June 2019 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.

Statement of compliance

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 and approved for use in the European Union come into force in 2019:

- **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);
- **Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments following from the review of IFRS 2015-2017** (effective for annual periods beginning on or after 1 January 2019);
- **IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Group believes that except for IFRS 16, the remaining amendments to the standards or interpretations do not have any considerable influence on the Group's consolidated financial statements. The implementation of IFRS 16 has been discussed in detail in the note 4.8.2.

Standards and interpretations adopted by the IASB but not yet approved 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 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** (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 to IAS 1 and IAS 8: "Definition of Material"** (effective for annual periods beginning on or after 1 January 2020);

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

4.8.2. Important accounting principles

4.8.2.1. Going concern

The half-yearly condensed financial statements of the Group have been prepared assuming that the Group will continue in operational existence for at least 12 months after the end of the reporting period; i.e. 30 June 2019.

The financial standing of the Parent Company is the most important factor influencing the Group's ability to continue in operational existence. The key factors influencing the Group's ability to continue as a going concern include liquidity, proper backlog and market situation.

The following facts should be taken into account when analysing the Group's financial situation: in the six months ended 30 June 2019, the Group recognised the sales revenue of PLN 479.8m (a year-on-year increase by 50%) and the gross profit of PLN 13.3m. As at 30 June 2019, the Group presented the current assets of PLN 397m, including the cash of more than PLN 18.7m. At the date of preparation of this report, the Group had the backlog worth approx. PLN 1,612m. The Group is in the process of winning new contracts.

Accordingly, the Management Board of ZUE state that there are no significant going concern risks at the date of preparation of these half-yearly condensed financial statements and these financial statements have been prepared assuming that the Group will continue in operational existence for the foreseeable future.

4.8.2.2. 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.

4.8.2.3. Comparability of financial information

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

Following the implementation of IFRS 16, in these consolidated financial statements and the comparative information, the "Lease liabilities" item has been separated by the Group and presented under equity and liabilities:

- "Non-current lease liabilities;" and
- "Current lease liabilities."

Previously the Group recognised liabilities relating to the financing of property, plant and equipment and obligations under finance lease under "Loans and bank credits and other financing sources." Since 2019, the Group has also recognised liabilities under right-of-use assets in the new separate item.

In addition, the Group has separated "Advance payments" from "Trade and other receivables" and presented it as a separate item in order to make these financial statements and the comparative information clearer.

The Group has also separated "Accruals" and "Advance payments" from "Trade and other payables" and presented them as separate items.

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

	Restated	Approved	
	Balance at	Balance at	Effect of
	31-12-2018	31-12-2018	changes
ASSETS			
Non-current assets			
Total non-current assets	182,498	182,498	0
Current assets			
Trade and other receivables	179,562	194,837	-15,275
Advance payments	15,275	0	15,275

Total current assets	447,064	447,064	0
Total assets	629,562	629,562	0
EQUITY AND LIABILITIES			
Equity			
Total equity attributable to shareholders of the parent	146,622	146,622	0
Total equity	146,748	146,748	0
Non-current liabilities			
Long-term loans and bank credits and other financing sources	0	14,815	-14,815
Non-current lease liabilities	14,815	0	14,815
Total non-current liabilities	36,402	36,402	0
Current liabilities			
Trade and other payables	219,194	356,631	-137,437
Accruals	62,428	0	62,428
Advance payments	75,009	0	75,009
Short-term loans and bank credits and other financing sources	0	20,908	-20,908
Short-term loans and bank credits	7,907	0	7,907
Current lease liabilities	13,001	0	13,001
Total current liabilities	446,412	446,412	0
Total liabilities	482,814	482,814	0
Total equity and liabilities	629,562	629,562	0

4.8.2.4. Applied accounting principles

Except for the following changes, these half-yearly consolidated financial statements for the six months ended 30 June 2019 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 2018. The financial statements for the financial year ended 31 December 2018 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.

4.8.2.5. Changes to accounting principles and financial statements preparation

Implementation of IFRS 16

Application of IFRS 16 for the first time

The International Financial Reporting Standard 16 Leases (IFRS 16) was issued by the International Accounting Standards Board (IASB) in January 2016 and superseded IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Forms of a Lease. IFRS 16 establishes principles for the measurement, presentation and disclosure of leases.

IFRS 16 introduces a single lessee accounting model eliminating the distinction between operating and finance leases and requires a lessee to recognise the right-of-use asset and a lease liability, except for short-term leases and low value asset leases.

Impact of IFRS 16 on the Group's financial statements

Implementing IFRS 16 with a modified retrospective approach.

The Group applied IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application (modified approach). The date of the initial application of IFRS 16 for the Group is 1 January 2019. The Group has applied a modified approach so there is no requirement to restate comparative

financial information. Instead, the Group recognised the cumulative effect of initially applying this Standard as an adjustment to the opening balance at the date of initial application.

The change of the definition of a lease mainly related to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time. The Group applied the definition of a lease and the related guidelines specified in IFRS 16 to all lease contracts signed or amended on or after 1 January 2019 regardless of whether the Group is a lessee or lessor under the contract.

Practical solutions used by the Group

When applying IFRS 16 for the first time, the Group applied the following practical solutions approved of by the standard:

1. Not to recognise operating leases with a lease term less than 12 months of 1 January 2019, which were treated as short-term leases;
2. Not to recognise leases where the underlying asset has a low value; i.e. PLN 20 thousand;
3. To use a single discount rate to a portfolio of leases with similar characteristics;
4. To exclude initial direct costs from the measurement of the right of use asset at the date of initial application;
5. To use knowledge, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Exemptions offered by practical solutions:

Short-term lease	1,392
Lease of low value assets	90
Total exemptions	1,482

As at 1 January 2019, the discount rates applied by the Group to determine the amount of discounted lease payments range from 3.04% to 6.3% for PLN- and EUR-denominated contracts (depending on the term of the lease).

Impact on the Group's accounting

Summary of impact of IFRS 16 on the lessee's accounting:

1. Application of IFRS 16 to lease contracts previously classified as operating leases under IAS 17 caused the recognition of right-of-use assets and lease liabilities.
2. Non-current assets held under finance lease contracts previously presented under property, plant and equipment were presented under right-of-use assets.
3. Lease liabilities previously classified as finance lease contracts under IAS 17 and disclosed under loans and bank credits and other financing sources were presented in (non-current and current) lease liabilities.
4. The disclosure requirements contained in IAS 40 were applied to right-of-use assets that met the definition of investment property.

Right-of-use assets recognised as at 1 January 2019 (contracts which contain a lease)

The Group is a lessee of cars, apartments, land and leasehold land.

Lease of cars	682
Lease of apartments, land and office equipment	1,782
Leasehold land	4,495
Total	6,959

Right-of-use assets recognised as at 1 January 2019 which meet the requirements of the definition of investment property

A right-of-use asset is presented separately by the Group according to IAS 40.

Leasehold land in investment property	992
---------------------------------------	-----

Right-of-use liabilities recognised as at 1 January 2019 (contracts which contain a lease)

Lease of cars	682
Lease of apartments, land and office equipment	1,782
Leasehold land	4,495
Leasehold land in investment property	992
Total	7,951

Contracts previously recognised as finance lease

For the leases classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is the carrying amount of lease asset and lease liability immediately before that date measured applying IAS 17.

Presentation at 1 January 2019:

Right-of-use liabilities	27,816
Right-of-use assets	51,543

The amount of PLN 27,816 thousand includes vehicles, machines and technical equipment leased under IAS 17.

Right-of-use assets – reclassified from intangible assets

Leasehold land	8,392
----------------	-------

Impact of the implementation of IFRS16 on the financial statements

At the date of application of IFRS 16, the Group recognised the right-of-use assets of PLN 7,951 thousand and the lease liabilities of PLN 7,951 thousand.

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

	Balance at 2019-01-01	Balance at 2018-12-31	Effect of changes
ASSETS			
Non-current assets			
Property, plant and equipment	53,157	104,700	-51,543
Investment property	6,257	5,265	992
Intangible assets	224	8,616	-8,392
Right-of-use assets	66,894	0	66,894
Total non-current assets	190,449	182,498	7,951
Total current assets	447,064	447,064	0
Total assets	637,513	629,562	7,951
	According to IFRS 16	Approved	
	Balance at	Balance at	Effect of changes
	2019-01-01	2018-12-31	
EQUITY AND LIABILITIES			
Total equity	146,748	146,748	0
Long-term loans and bank credits and other financing sources	0	14,815	-14,815
Long-term loans and bank credits	0	0	0
Long-term lease liabilities	21,280	0	21,280
Total non-current liabilities	42,867	36,402	6,465
Short-term loans and bank credits and other financing sources	0	20,908	-20,908
Short-term loans and bank credits	7,907	0	7,907
Short-term lease liabilities	14,487	0	14,487
Total current liabilities	447,898	446,412	1,486
Total liabilities	490,765	482,814	7,951
Total equity and liabilities	637,513	629,562	7,951

Hedge accounting

No hedge accounting is applied by the Group.

4.8.3. Sources of estimation uncertainty

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

which the estimate is revised or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates relate, *inter alia*, to:

Impairment of goodwill (note no. 4.7.5.)

Useful economic lives of non-current assets

Loss allowances for receivables (note no. 4.5.1.)

Provisions (note no. 4.4.3.)

Measurement of long-term construction contracts (note no. 4.4.1.)

Deferred income tax (note no. 4.3.7.)

Contingent assets and contingent liabilities (note no. 4.7.13.)

Uncertainty over tax settlements (note no. 4.7.12.)

The following revisions to estimates occurred in the reporting period:

1/ Construction contracts accounted for using percentage-of-completion method – the revision was influenced by the inspection of the construction contract budgets. Following the inspection, the income and expenditure budget for the contracts changed. The revisions did not have any material influence of the Group's results in the reporting period.

2/ Useful economic lives of non-current assets – the revision was influenced by the interim verification of useful economic lives of vehicles.

5. Approval of the condensed consolidated financial statements

These condensed consolidated financial statements for the six months ended 30 June 2019 were approved for publication by the Management Board of ZUE on 20 August 2019.

Statement by the Management Board of ZUE

Preparation of half-yearly condensed consolidated financial statements

On the basis of the Regulation of the Minister of Finance of 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.

6. Signatures

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

Signatures of the management personnel:

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



ZUE S.A.

**CONDENSED SEPARATE FINANCIAL STATEMENTS
FOR 6 MONTHS ENDED 30 JUNE 2019**

Cracow, 20 August 2019

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

Separate statement of comprehensive income

Continuing operations	Note no.	6 months ended 30-06-2019	6 months ended 30-06-2018
Sales revenue	2.1.1.	455,740	289,797
Cost of sales	2.1.2.	444,386	279,928
Gross profit (loss) on sales		11,354	9,869
General and administrative expenses	2.1.2.	8,556	8,655
Other operating income	2.1.3.	154	789
Other operating expenses	2.1.4.	243	839
Operating profit (loss)		2,709	1,164
Financial income	2.1.5.	1,070	876
Financial expenses	2.1.6.	737	431
Pre-tax profit (loss)		3,042	1,609
Corporate income tax	2.1.7.	1,373	373
Net profit (loss) from continuing operations		1,669	1,236
Net profit (loss)		1,669	1,236
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		-23	-3
Actuarial gains (losses) relating to specific benefit schemes		-23	-3
Other total net comprehensive income		-23	-3
Total comprehensive income		1,646	1,233
Number of shares		23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)		0.07	0.05
Total comprehensive income per share (PLN)		0.07	0.05

Separate statement of financial position

		Balance at	Restated Balance at
	Note no.	30-06-2019	31-12-2018
ASSETS			
Non-current assets			
Property, plant and equipment	2.5.1.	49,477	101,815
Investment property	2.5.2.	9,746	8,642
Intangible assets	2.5.3.	192	8,115
Right-of-use assets	2.5.4.	64,975	0
Goodwill	2.5.5.	31,172	31,172
Investments in subordinates		221	221
Retentions on construction contracts	2.2.2.	9,239	9,463
Deferred tax assets	2.1.7.	21,117	22,485
Advanced loans	2.5.7.	149	0
Total non-current assets		186,288	181,913
Current assets			
Inventories	2.5.8.	36,265	37,311
Trade and other receivables	2.3.1.	130,671	171,503
Measurement of long-term construction contracts	2.2.1.	160,567	103,400
Retentions on construction contracts	2.2.2.	3,218	2,938
Advance payments	2.2.4.	17,208	16,581
Current tax assets	2.1.7.	0	0
Advanced loans	2.5.7.	119	2,804
Other assets		893	764
Cash and cash equivalents	2.4.4.	17,348	79,404
Total current assets		366,289	414,705
Total assets		552,577	596,618

		Balance at	Restated Balance at
	Note no.	30-06-2019	31-12-2018
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		50,983	49,337
Total equity		147,888	146,242
Non-current liabilities			
Non-current lease liabilities	2.4.2.	15,991	14,781
Retentions on construction contracts	2.2.2.	14,977	10,721
Liabilities under employee benefits		1,106	1,036
Long-term provisions	2.2.3.	9,970	7,872
Other liabilities		0	70
Total non-current liabilities		42,044	34,480
Current liabilities			
Trade and other payables	2.3.2.	125,946	205,856
Accruals	2.2.5.	85,786	55,020
Measurement of long-term construction contracts	2.2.1.	7,896	6,980
Retentions on construction contracts	2.2.2.	10,562	8,099
Advance payments	2.2.4.	41,578	75,007
Short-term loans and bank credits	2.4.1.	31,679	0
Current lease liabilities	2.4.2.	13,084	12,963
Other financial liabilities		36	36
Liabilities under employee benefits		25,748	22,103
Current tax liabilities	2.1.7.	0	0
Short-term provisions	2.2.3.	20,330	29,832
Total current liabilities		362,645	415,896
Total liabilities		404,689	450,376
Total equity and liabilities		552,577	596,618

Separate statement of changes in equity

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	1 January 2019	5,758	93,837	-2,690	49,337	146,242
Payment of 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	1,669	1,669
Other net comprehensive income		0	0	0	-23	-23
Balance at	30 June 2019	5,758	93,837	-2,690	50,983	147,888

Balance at	1 January 2018	5,758	93,837	-2,690	113,461	210,366
Payment of 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

Balance at	1 January 2018	5,758	93,837	-2,690	113,461	210,366
Payment of 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	-64,049	-64,049
Other net comprehensive income		0	0	0	-75	-75
Balance at	31 December 2018	5,758	93,837	-2,690	49,337	146,242

Separate statement of cash flows

	6 months ended 30-06-2019	6 months ended 30-06-2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	3,042	1,609
Adjustments for:		
Depreciation and amortisation	6,279	5,134
Foreign exchange gains / (losses)	1	-33
Interest and share in profit (dividends)	589	228
(Gain) / loss on disposal of investments	-67	-128
Operating profit (loss) before changes in working capital	9,844	6,810
Change in receivables, measurement of contracts, retentions on construction contracts and advance payments	-17 018	-52,531
Change in inventories	1,046	-12,665
Change in provisions and liabilities under employee benefits	-3,718	2,100
Change in payables, measurement of contracts and retentions on construction contracts, advance payments and accruals, excluding loans and bank credits and lease liabilities	-76,527	-38,833
Change in prepayments	-128	-106
NET CASH FROM OPERATING ACTIVITIES	-86,501	-95,225
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	110	742
Purchase of property, plant and equipment and intangible assets	-1,314	-14,479
Sale / (purchase) of financial assets in related parties	-35	-58
Advanced loans	-317	-3,210
Repayment of advanced loans	2,752	0
Interest received	161	216
NET CASH FROM INVESTING ACTIVITIES	1,357	-16,789
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	40,000	11,836
Repayment of loans and bank credits	-8,321	0
Decrease in lease liabilities	-8,058	-6,164
Lease interest paid	-528	-344
Other interest paid	-4	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	23,089	5,328
TOTAL NET CASH FLOWS	-62,055	-106,686
Net foreign exchange gains / (losses)	-1	33
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	79,404	116,144
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:	17,348	9,491
- of limited availability	12	0

Notes to the condensed separate financial statements of ZUE

1. General information

1.1. Information about the Company

ZUE Spółka Akcyjna 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.

The composition of the Company's Management Board has not changed during the reporting period or until the date of preparation of these 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, as amended).

1.2. Activities of the Company

ZUE is one of major players 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.

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

Construction activities have been diversified 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.

1.3. Functional and reporting currency

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

2. Financial information

2.1. Notes to the statement of comprehensive income

2.1.1. Revenue

	Period ended 30-06-2019	Period ended 30-06-2018
Revenue from construction contracts	447,198	283,655
Revenue from the provision of services	7,021	5,604
Revenue from the sale of goods, raw and other materials	1,521	538
Total	455,740	289,797

The Company's sales revenue in the period 1 January – 30 June 2019 amounted to PLN 455,740 thousand and increased by 57% over the revenue reported in the analogous period of 2018.

The Company operated in the territory of Poland in the reporting period.

The largest portion of the Company's revenue was derived from long-term construction contracts.

The entire revenue is presented by the Company in the single reporting segment, namely construction activities.

Concentration of revenue exceeding 10% of total sales revenue

	Period ended	
	30-06-2019	30-06-2018
Counterparty A	252,014	158,757
Counterparty B	53,389	

2.1.2. Operating expenses

	Period ended 30-06-2019	Period ended 30-06-2018
Change in products	-1,405	-1,082
Depreciation and amortization	6,279	5,134
Consumption of materials and energy, including:	150,267	166,814
- consumption of materials	146,583	165,469
- consumption of energy	3,684	1,345
Contracted services	235,972	73,339
Costs of employee benefits	52,263	38,356
Taxes and charges	665	756
Other expenses	7,819	5,065
Value of goods and materials sold	1,082	201
Total	452,942	288,583

	Period ended 30-06-2019	Period ended 30-06-2018
Cost of sales	444,386	279,928
General and administrative expenses	8,556	8,655
Total	452,942	288,583

The Company's general and administrative expenses in the period 1 January – 30 June 2019 amounted to PLN 8,556 thousand and decreased by 1% when compared with ZUE's general and administrative expenses reported in the first half of 2018.

Depreciation and amortisation

	Period ended 30-06-2019	Period ended 30-06-2018
Depreciation of property, plant and equipment	3,627	4,658
Depreciation of right-of-use assets	2,341	0
Amortisation of intangible assets	56	244
Depreciation of investments in real property	255	232
Total	6,279	5,134

2.1.3. Other operating income

	Period ended 30-06-2019	Period ended 30-06-2018
Gain on disposal of assets:	67	128
Gain on disposal of non-current assets	67	128
Other operating income:	87	661
Damages and penalties	24	0
Release of allowances for receivables	7	37
Refund of the costs of court proceedings	0	576
Release of write-downs of inventories	21	8
Other	35	40
Total	154	789

In order to make the financial statements clearer, reinvoices and damages have been jointly presented by ZUE (income and expenses according to their netted balance).

2.1.4. Other operating expenses

	Period ended 30-06-2019	Period ended 30-06-2018
Loss on disposal of assets:	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses:	243	839
Donations	2	16
Damages and penalties	0	430
Allowances for receivables	206	168
Costs of litigations	33	223
Other	2	2
Total	243	839

In order to make the financial statements clearer, reinvoices and damages have been jointly presented by ZUE (income and expenses according to their netted balance).

2.1.5. Financial income

	Period ended 30-06-2019	Period ended 30-06-2018
Interest income	142	417
Interest on bank deposits	101	298
Interest on loans	38	46

Interest on receivables	3	73
Other financial income	928	459
Foreign exchange gains	0	0
Discount of long-term items	799	353
Financial guarantees	129	106
Total	1,070	876

In order to make the financial statements clearer, reinvoices have been jointly presented by ZUE (income and expenses according to their netted balance).

2.1.6. Financial expenses

	Period ended 30-06-2019	Period ended 30-06-2018
Interest expenses	654	352
Interest on bank credits	4	0
Interest on leases	609	344
Interest on trade and other payables	41	8
Other financial expenses	83	79
Foreign exchange losses	31	5
Write-down of investments in related parties	35	58
Other	17	16
Total	737	431

In order to make the financial statements clearer, reinvoices have been jointly presented by ZUE (income and expenses according to their netted balance).

In 2019, Interest on leases includes the interest of PLN 206 thousand on recognised leases in accordance with the implementation of IFRS 16.

2.1.7. Corporate income tax

Corporate income tax recognised in the statement of comprehensive income

	Period ended 30-06-2019	Period ended 30-06-2018
Current income tax	0	0
Deferred tax	1,373	373
Total tax expense/income	1,373	373

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 the items of income or expense that are not taxable or deductible and the 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 a calendar year.

Income tax according to effective interest rate

	Period ended 30-06-2019	Period ended 30-06-2018
Gross profit (loss)	3,042	1,609
Income tax at the applicable rate of 19%	578	306

Effect of tax recognition of:	-1,942	-3,376
- Use of tax losses brought forward	0	0
- Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	8,832	10,540
- Revenue not classified as revenue under tax regulations and taxable revenue that is not balance sheet revenue	10,774	13,916
Revaluation of deferred tax assets (current year loss)	1,364	3,070
Deferred tax	1,373	373
Income tax according to effective tax rate	1,373	373
Effective tax rate	45%	23%

Current tax assets and liabilities

	Balance at 30-06-2019	Balance at 31-12-2018
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	0	0

Deferred tax

	Balance at 30-06-2019	Balance at 30-06-2018
Deferred tax balance at the beginning of the period	22,485	7,803
Temporary differences relating to deferred tax assets:	48,329	33,713
Provisions for expenses and accruals	25,193	12,776
Discount of receivables	226	343
Operating lease liabilities	2,797	1,429
Write-downs	1,180	1,181
Bonds and insurances accounted for over time	1,079	1,612
Tax work in progress	15,856	15,977
Measurement of long-term contracts	1,500	12
Other	498	383
Temporary differences relating to deferred tax liabilities:	43,909	37,006
Measurement of long-term contracts	30,508	26,227
Difference between the carrying and tax amount of property, plant and equipment and intangible assets	12,781	10,367
Discount of payables	618	409
Other	2	3
Unused tax losses and other tax credits carried forward:	16,697	10,724
Tax losses	16,697	10,724
Total temporary differences relating to deferred tax assets:	65,026	44,437
Total temporary differences relating to deferred tax liabilities:	43,909	37,006
Deferred tax balance at the end of the period	21,117	7,431

Change in deferred tax, including:	-1,368	-372
- recognised in income	-1,373	-373
- recognised in equity	5	1

The recognition of deferred tax in equity is a result of calculating tax on actuarial gains/losses presented in comprehensive income.

2.1.8. Operating segment

ZUE's reporting is based on operating segments. The Company analyses the areas of activity based on the aggregation rules under IFRS 8.12 and identifies one aggregate reporting segment, namely construction activity.

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

2.2. Contracts, retentions, provisions, advance payments and accruals

2.2.1. Construction contracts

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

	Period ended 30-06-2019	Period ended 30-06-2018
Revenue from long-term construction contracts	435,528	272,407
Costs of long-term construction contracts*)	440,971	262,402
Gross profit (loss) on long-term contracts	-5,443	10,005
Gross profit (loss) on long-term contracts (cumulative)*	-18,461	123,603

*) the item does not include the provision for losses on contracts or the provision for warranty claims.

	Balance at 30-06-2019	Balance at 31-12-2018
Assets (selected items)	190,234	132,424
- Measurement of long-term construction contracts	160,567	103,400
- Advance payments transferred in connection with performed contracts	17,210	16,623
- Retentions on construction contracts retained by customers	12,457	12,401
Liabilities (selected items)	190,799	193,320
- Measurement of long-term construction contracts	7,896	6,980
- Provisions for contract costs	85,486	54,809
- Advance payments transferred in connection with performed contracts	41,578	75,007
- Retentions on construction contracts retained for suppliers	25,539	18,820
- Provisions for warranty claims	11,662	9,816
- Provisions for expected losses on contracts	18,638	27,888

The increase in the measurement of long-term construction contracts was influenced by the greater progress of construction works.

The provision for a loss on contracts is created if the budgeted costs exceed the total revenue under the contract.

The provisions for contract costs increased mainly after more subcontractors had been involved in the performance of contracts.

Presentation changes in the separate statement of financial position have also been made in comparative information. The changes have been made to make the statement clearer.

2.2.2. Retentions on construction contracts

	Balance at 30-06-2019	Balance at 31-12-2018
Retained by customers – to be repaid after 12 months	9,239	9,463
Retained by customers – to be repaid within 12 months	3,218	2,938
Total retentions on construction contracts retained by customers	12,457	12,401
Retained for suppliers – to be repaid after 12 months	14,977	10,721
Retained for suppliers – to be repaid within 12 months	10,562	8,099
Total retentions on construction contracts retained for suppliers	25,539	18,820

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.

2.2.3. Provisions

Change in provisions

Provisions	01-01- 2019	Created	Used	Released	Reclassified	30-06- 2019	Item
Long-term provisions:	8,908	2,574	259	0	-147	11,076	
Provisions for employee benefits	1,036	70	0	0	0	1,106	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,872	2,504	259	0	-147	9,970	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	43,504	8,868	5,645	10,543	147	36,331	
Provisions for employee benefits	13,672	8,749	5,521	899	0	16,001	Liabilities under employee benefits (short-term)
Provisions for warranty claims	1,944	0	124	275	147	1,692	Short-term provisions
Provision for loss on contracts	27,888	119	0	9,369	0	18,638	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	52,412	11,442	5,904	10,543	0	47,407	

A provision for warranty claims is created for the construction contracts in respect of which warranty has 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 construction works carried out in subsequent years of warranty.

Provisions for employee benefits include the provisions for leaves, bonuses and retirement and pension gratuities.

A provision for a loss on contracts is created if the budgeted costs exceed the total revenue under a contract.
Provisions for expected losses on contracts decreased following the settlement of the contracts.

Comparative information:

Provisions	01-01-2018	Created	Used	Released	Reclassified	31-12-2018	Item
Long-term provisions:	6,527	3,580	308	217	-674	8,908	
Provisions for employee benefits	856	181	1	0	0	1,036	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,671	3,399	307	217	-674	7,872	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	13,117	44,097	12,245	2,139	674	43,504	
Provisions for employee benefits	10,119	15,379	11,546	280	0	13,672	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,581	10	699	622	674	1,944	Short-term provisions
Provision for loss on contracts	417	28,708	0	1,237	0	27,888	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	19,644	47,677	12,553	2,356	0	52,412	

2.2.4. Advance payments

	Balance at 30-06-2019	Balance at 31-12-2018
Advance payments transferred in connection with performed contracts	17,210	16,623
Other advance payments	40	0
Allowances for advance payments	-42	-42
Total advance payments due	17,208	16,581

ZUE receives advances from Investors and transfers them also to subcontractors to ensure the timely performance of construction contracts.

	Balance at 30-06-2019	Balance at 31-12-2018
Advance payments received in connection with performed contracts	41,578	75,007
Other advance payments	0	0
Total advance payments received	41,578	75,007

The received advance payments are the prepayments received by the Company on the basis of relevant provisions of the contracts with PKP PLK to perform construction contracts.

2.2.5. Accruals

	Balance at 30-06-2019	Balance at 31-12-2018
Provisions for contract costs	85,486	54,809

Other accruals	300	211
Total	85,786	55,020

Provisions for contract costs include provisions for the costs of subcontractors and provisions for the risks relating to the settlement of contracts.

2.3. Trade and other receivables and payables

2.3.1. Trade and other receivables

	Balance at 30-06-2019	Balance at 31-12-2018
Trade receivables	144,019	183,411
Loss allowances for trade receivables in connection with the increase in credit risk	-18,548	-16,101
Loss allowance for trade receivables – initial for expected credit losses	-60	-60
Other receivables	5,260	4,253
Total trade and other receivables	130,671	171,503

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

The change in allowances for trade receivables influencing the profit or loss includes the release of allowances PLN 7 thousand and the creation of allowances of PLN 206 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by the Company for the penalties and damages that were not the Company's revenue at the moment of issue.

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

	Balance at 30-06-2019	Balance at 31-12-2018
Counterparty A	83,813	147,395
Counterparty B	19,773	

The concentration of credit risk is limited due to the fact that the creditability of the abovementioned counterparty assessed, *inter alia*, by analysing their financial standing, is high and the fact that the said company meets additional requirements concerning the settlement of EU funds. The Company has carried out the 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 creditability is even higher. Accordingly, the Management Board of the Company believe there is no need to create additional provisions.

2.3.2. Trade and other payables

	Balance at 30-06-2019	Balance at 31-12-2018
Trade payables	110,166	174,985
Liabilities to the state budget other than corporate income tax	15,694	30,798
Other payables	86	73
Total trade and other payables	125,946	205,856

2.4. Debt and management of capital and liquidity

ZUE cooperates with banks to ensure the proper financing of its day-to-day operations and to obtain the bonds

enabling the Company to carry out scheduled projects.

In the reporting period, ZUE used own resources and credit limits to finance its day-to-day operations. As at 30 June 2019, the Company could use overdraft and working credit facility limits in the total amount of PLN 30,000 thousand. The available bond lines provided by bank and insurance companies amounted to PLN 349,435 thousand.

2.4.1. Loans and bank credits

	Balance at 30-06-2019	Balance at 31-12-2018
Long-term	0	0
Bank credits	0	0
Loans received	0	0
Short-term	31,679	0
Bank credits	31,679	0
Loans received	0	0
Total	31,679	0

Summary of credit agreements

No.	Bank	Description	Principal/limit according to the agreement as at 30-06-2019	Amount of available credits as at 30-06-2019	Use as at 30-06- 2019	Interest	Repayment date
1	mBank S.A.	Overdraft	10,000	10,000	0	O/N WIBOR + margin	10-07-2020
2	mBank S.A.	Master agreement including: sublimit for bonds Non-revolving working credit facility	50,000 10,000 40,000	 0	31,679 31,679	3M WIBOR + margin	17-07-2020
3	BNP Paribas Bank Polska S.A. (i)	Multipurpose credit line agreement including: sublimit for bonds sublimit for working credit facilities	170,000 170,000 20,000	 20,000	90,463 90,463 0	1M WIBOR + margin	24-10-2019
Total amount of available credits				30,000			
Total debt under credits					31,679		
Total use for bonds					90,463		

(i) ZUE's ability to use the limit for both bank bonds and working credit facility.

The following amendments were made in the reporting period to certain credit agreements signed by ZUE:

- mBank – Overdraft (no. 1) – Annex of 27 June 2019 whereby the credit was renewed for a further term.
- mBank – Master Agreement (no. 2) – Annex of 21 February 2019 whereby the Cooperation Agreement was renamed to the Master Agreement and the sublimit for working credit facilities was raised to PLN 40,000 thousand. On 22 February 2019, the working credit facility agreement was signed as part of the available sublimit under the Master Agreement.

Security and liabilities under credit agreements:

1. **Overdraft** – bill of exchange.
2. **Master agreement:**

- a) Mortgage;
- b) Borrower's statement on submission to enforcement.
- 3. **Multipurpose credit limit agreement:**
 - 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;
 - f) Borrower's statement on submission to enforcement.

Comparative information:

No.	Bank	Description	Principal/limit according to the agreement as at 31-12-2018	Use as at 31-12-2018	Interest	Repayment date
1	mBank S.A. (i)	Overdraft	10,000	0	O/N WIBOR + margin	10-05-2019
2	mBank S.A.	Cooperation agreement	50,000	0	3M WIBOR + margin	17-07-2020
		including:				
		sublimit for bonds	50,000	0		
		sublimit for working credit facilities	30,000	0		
3	BGŻ BNP PARIBAS S.A.	Multipurpose credit line agreement	170,000	104,508	1M WIBOR + margin	24-10-2019
		including:				
		sublimit for bonds	170,000	104,508		
		sublimit for working credit facilities	20,000	0		
Total use of credits				0		
Total use of bonds				104,508		

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

2.4.2. Lease liabilities

	Balance at 30-06-2019	Balance at 31-12-2018
Non-current lease liabilities	15,991	14,781
Current lease liabilities	13,084	12,963
Total	29,075	27,744

The increase in lease liabilities in connection with the implementation of IFRS 16 as at 1 January 2019 was PLN 7,904 thousand. Detailed information is contained in the note 2.6.2.

The Company did not enter into any leasebacks in the reporting period.

2.4.3. Management of capital

The Company reviews the capital structure each time for the purpose of financing major contracts/orders. As part of this review, the Company considers 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 30-06-2019	Balance at 31-12-2018
Long- and short-term loans and bank credits	31,679	0
Long- and short-term lease liabilities	29,075	27,744
Long- and short-term other financial liabilities	36	36
Total financial liabilities	60,790	27,780
Cash and cash equivalents	17,348	79,404
Net debt	43,442	-51,624
Equity	147,888	146,242
Net debt to equity ratio	29.37%	-35.30%

Positive net debt is due to the fact that total financial liabilities at the end of the first half of 2019 exceeded the amount of cash at the Company.

2.4.4. Cash and cash equivalents

	Balance at 30-06-2019	Balance at 31-12-2018
Cash on hand and at banks	17,348	79,404
Bank deposits up to three months	0	0
TOTAL	17,348	79,404

The cash decreased at the end of the first half of 2019 after it had been used for operating activities.

The cash as at 30 June 2019 does not include the amount of PLN 10,411 thousand kept on escrow accounts attributable to consortium members. The Company believes that the cash cannot be defined as assets and is not presented in the balance sheet at 30 June 2019. The cash kept on ZUE's escrow accounts as at 31 December 2018 was PLN 2,962 thousand

Discussion of items of the statement of cash flows

The Company's cash flows from operating activities of PLN (-) 86,501 thousand were mainly influenced by changes in receivables, payables, retentions and inventories in connection with the performance of construction contracts.

The Company's cash flows from investing activities of PLN 1,357 thousand were mainly influenced by the purchase of non-current assets financed by own resources and the granting of loans.

The Company's cash flows from financing activities of PLN 23,089 thousand were mainly influenced by the use of credits and the decrease in liabilities under leases.

	Balance at 30-06-2019	Balance at 30-06-2018
Cash flows from operating activities	-86,501	-95,225
Cash flows from investing activities	1,357	-16,789

Cash flows from financing activities	23,089	5,328
Total net cash flows	-62,055	-106,686
Cash at the beginning of the period	79,404	116,144
Cash at the end of the period	17,348	9,491

2.5. Other 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 2019	0	24,634	51,268	85,378	2,147	163,427	302	0	163,729
Opening balance adjustment		0	-19,437	-35,890	0	-55,327	0	0	-55,327
Balance at 1 January 2019 after opening balance adjustment	0	24,634	31,831	49,488	2,147	108,100	302	0	108,402
Additions	0	52	756	2,063	11	2,882	512	0	3,394
Presentation adjustment	0	0	0	0	0	0	0	0	0
Transfer to non-current assets	0	0	0	0	0	0	623	0	623
Sale/liquidation	0	0	581	192	42	815	0	0	815
Balance at 30 June 2019	0	24,686	32,006	51,359	2,116	110,167	191	0	110,358

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 2019	0	8,498	22,207	29,445	1,764	61,914	0	0	61,914
Opening balance adjustment	0	0	-1,964	-1,919	0	-3,883			-3,883
Balance at 1 January 2019 after opening balance adjustment	0	8,498	20,243	27,526	1,764	58,031	0	0	58,031
Elimination on disposal of assets	0	0	568	167	42	777	0	0	777
Depreciation expense	0	359	1,131	2,091	46	3,627	0	0	3,627
Balance at 30 June 2019	0	8,857	20,806	29,450	1,768	60,881	0	0	60,881

Carrying amount

Balance at 1 January 2019	0	16,136	29,061	55,933	383	101,513	302	0	101,815
Balance at 1 January 2019 after opening balance adjustment		16,136	11,588	21,962	383	50,069	302	0	50,371
Balance at 30 June 2019	0	15,829	11,200	21,909	348	49,286	191	0	49,477

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

As at 30 June 2019, the amount of liabilities incurred to purchase property, plant and equipment was PLN 2,434 thousand. As at 30 June 2019, the gross carrying amount of fully depreciated property, plant and equipment still used by the Company was PLN 14,711 thousand.

Opening balance adjustment results from the implementation of IFRS 16.

Assets pledged as security

Note 2.5.13 deals with property, plant and equipment pledged as security for bank agreements. The Company's lease liabilities (note 2.4.2) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

Comparative information:

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	47	7,331	19,474	114	26,966	10,747	945	38,658
Presentation adjustment	0	11	0	-11	0	0	0	0	0
Transfer to non-current assets	0	0	0	0	0	0	13,647	4,650	18,297
Sale/liquidation	0	0	2,023	1,180	36	3,239	0	0	3,239
Balance at 31 December 2018	0	24,634	51,268	85,378	2,147	163,427	302	0	163,729

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	1,524	938	35	2,497	0	0	2,497
Depreciation expense	0	788	3,164	5,740	116	9,808	0	0	9,808
Balance at 31 December 2018	0	8,498	22,207	29,445	1,764	61,914	0	0	61,914

Carrying amount									
Balance at 1 January 2018	0	16,866	25,393	42,452	386	85,097	3,202	3,705	92,004
Balance at 31 December 2018	0	16,136	29,061	55,933	383	101,513	302	0	101,815

2.5.2. Investment property

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2019	126	5,228	7,409	0	0	0	12,763
Opening balance adjustment	0	1,359	0	0	0	0	1,359
Balance at 1 January 2019 after opening balance adjustment	126	6,587	7,409	0	0	0	14,122
Additions	0	0	0	0	0	0	0
Impairment	0	0	0	0	0	0	0
Sale/liquidation	0	0	0	0	0	0	0
Balance at 30 June 2019	126	6,587	7,409	0	0	0	14,122

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2019	0	1,677	2,444	0	0	0	4,121
Opening balance adjustment	0	0	0	0	0	0	0
Balance at 1 January 2019 after opening balance adjustment	0	1,677	2,444	0	0	0	4,121
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	109	146	0	0	0	255
Balance at 30 June 2019	0	1,786	2,590	0	0	0	4,376

Carrying amount							
Balance at 1 January 2019	126	3,551	4,965	0	0	0	8,642
Balance at 1 January 2019 after opening balance adjustment	126	4,910	4,965	0	0	0	10,001
Balance at 30 June 2019	126	4,801	4,819	0	0	0	9,746

The investment property as at 30 June 2019 included the real estate in Kościelisko (plots no. 2001 and 2491) and the real estate in Poznań (plot no. 2/1).

The Company's investment property is held either as freehold or leasehold interests. No impairment losses were released by the Company in the reporting period. The total amount of investment property impairment losses of prior years is PLN 1,770 thousand.

Opening balance adjustment results from the implementation of IFRS 16.

Comparative information:

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	12	0	0	0	12
Impairment	0	0	0	0	0	0	0
Sale/liquidation	0	0	0	0	0	0	0
Balance at 31 December 2018	126	5,228	7,409	0	0	0	12,763

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	172	293	0	0	0	465
Balance at 31 December 2018	0	1,677	2,444	0	0	0	4,121

Carrying amount							
Balance at 1 January 2018	126	3,723	5,246	0	0	0	9,095
Balance at 31 December	126	3,551	4,965	0	0	0	8,642

2018

2.5.3. Intangible assets

Structure of intangible assets:

	Balance at 30-06-2019	Balance at 31-12-2018
Acquired concessions, patents, licenses and similar assets, including:	192	190
- Software	192	190
Other intangible assets, including:	0	7,925
- Leasehold	0	7,925
Total	192	8,115

Movements in intangible assets:

	Leasehold land	Other intangible assets – software	Total
Gross value			
Balance at 1 January 2019	9,038	3,920	12,958
Opening balance adjustment	-9,038	0	-9,038
Balance at 1 January 2019 after opening balance adjustment	0	3,920	3,920
Additions	0	58	58
Sale/liquidation	0	56	56
Balance at 30 June 2019	0	3,922	3,922
Amortisation and impairment			
Balance at 1 January 2019	1,113	3,730	4,843
Opening balance adjustment	-1,113	0	-1,113
Balance at 1 January 2019 after opening balance adjustment	0	3,730	3,730
Amortisation expense	0	56	56
Sale/liquidation	0	56	56
Balance at 30 June 2019	0	3,730	3,730
Carrying amount			
Balance at 1 January 2019	7,925	190	8,115
Balance at 1 January 2019 after opening balance adjustment	0	190	190
Balance at 30 June 2019	0	192	192

No impairment losses were recognised by the Company in 2019 or 2018.

Opening balance adjustment results from the implementation of IFRS 16.

Comparative information:

	Leasehold	Other intangible assets – software	Total
Gross value			
Balance at 1 January 2018	9,038	3,912	12,950
Additions	0	8	8
Sale/liquidation	0	0	0
Balance at 31 December 2018	9,038	3,920	12,958
Amortisation and impairment			
Balance at 1 January 2018	1,001	3,355	4,356
Amortisation expense	112	375	487
Sale/liquidation	0	0	0
Balance at 31 December 2018	1,113	3,730	4,843
Carrying amount			
Balance at 1 January 2018	8,037	557	8,594
Balance at 31 December 2018	7,925	190	8,115

2.5.4. Right-of-use assets

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total right-of-use assets	Right-of-use assets under construction	Prepaid right-of-use assets under construction	TOTAL
Balance at 1 January 2019	0	0	0	0	0	0	0	0	0	0
Opening balance adjustment	812	13,164	932	19,438	36,564	0	70,910	0	0	70,910
Balance at 1 January 2019 after opening balance adjustment	812	13,164	932	19,438	36,564	0	70,910	0	0	70,910
Conclusion of new contracts	254	0	406	0	835	0	1,495	0	0	1,495
Changes resulting from the amendments to contracts	-17	0	0	0	0	0	-17	0	0	-17
Changes resulting from the shortening of contracts	0	0	-93	0	0	0	-93	0	0	-93
Balance at 30 June 2019	1,049	13,164	1,245	19,438	37,399	0	72,295	0	0	72,295

Depreciation	Freehold land	Leasehold 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 2019	0	0	0	0	0	0	0	0	0	0
Opening balance adjustment	0	1,112	0	1,964	1,920	0	4,996	0	0	4,996
Balance at 1 January 2019 after opening balance adjustment	0	1,112	0	1,964	1,920	0	4,996	0	0	4,996
Depreciation expense	230	80	294	546	1,191	0	2,341	0	0	2,341
Decrease in depreciation resulting from reclassification to discontinued operations	0	0	17	0	0	0	17	0	0	17
Balance at 30 June 2019	230	1,192	277	2,510	3,111	0	7,320	0	0	7,320

Carrying amount										
Balance at 1 January 2019	0	0	0	0	0	0	0	0	0	0

Balance at 1 January 2019 after opening balance adjustment	812	12,052	932	17,474	34,644	0	65,914	0	0	65,914
Balance at 30 June 2019	819	11,972	968	16,928	34,288	0	64,975	0	0	64,975

Opening balance adjustment results from the implementation of IFRS 16.

2.5.5. Goodwill

	Balance at 30-06-2019	Balance at 31-12-2018
At cost		
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 land 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.

Annual goodwill impairment test

After it had considered external circumstances influencing a long-term market capitalization of the Company below the carrying amount, the Company carried out goodwill impairment tests. The impairment tests carried out at 31 December 2018 according to *IAS 36 Impairment of Assets* revealed no risks to the loss of the carrying amount of the Company's assets. At 30 June 2019, the Company reviewed the assumptions required to carry out a test and decided that they were still up to date. Accordingly, goodwill is not impaired at the end of the reporting period

The Company intends to carry out the test at the end of the year.

2.5.6. Purchase and sale of property, plant and equipment and intangible assets

The total capital expenditures disclosed in the cash flow statement in the reporting period amounted to PLN 1,314 thousand.

At 30 June 2019, net liabilities incurred to purchase property, plant and equipment amounted to PLN 2,018 thousand.

At 31 December 2018, net liabilities incurred to purchase property, plant and equipment amounted to PLN 504 thousand.

Major investments in property, plant and equipment made by the Company in the reporting period included:

- Complete overhauls of vehicles – PLN 1,910 thousand;
- Purchase of handcar – PLN 389 thousand;
- Purchase of cars – PLN 154 thousand; and
- Purchase of compactor – PLN 33 thousand.

In the first half of 2019, the Company sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 25 thousand. In the first half of 2018, the Company sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 490 thousand.

2.5.7. Advanced loans

	Balance at 30-06-2019	Balance at 31-12-2018
Loans advanced to related parties	344	2,863
Loans advanced to other parties	288	288
Impairment losses	-364	-347
Total	268	2,804

Advanced loans include principal and interest charged at the end of the reporting period. In the reporting period, the Company granted special-purpose loans of PLN 317 thousand to related parties.

2.5.8. Inventories

	Balance at 30-06-2019	Balance at 31-12-2018
Goods, raw and other materials	34,126	36,578
Work-in-progress	1,939	534
Finished goods	200	199
Total	36,265	37,311

2.5.9. 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 2019

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)	13,356	0	0	0	27,350
Trade receivables	144,019	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	268	0	0	0	0
Cash and cash equivalents	17,348	0	0	0	0
Loans and bank credits	0	0	0	0	31,679
Lease liabilities	0	0	0	0	29,075
Trade payables	0	0	0	0	110,166
Total	174,991	0	0	0	198,306

No changes to the classification of financial instruments or shifts between individual levels of goodwill occurred in the reporting period.

Balance at 31 December 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)	13,418	0	0	0	20,215
Trade receivables	183,411	0	0	0	0
Other financial liabilities	0	0	0	0	36
Loans advanced	2,804	0	0	0	0

Cash and cash equivalents	79,404	0	0	0	0
Loans and bank credits	0	0	0	0	0
Lease liabilities	0	0	0	0	27,744
Trade payables	0	0	0	0	174,985
Total	279,037	0	0	0	222,980

In the reporting period, the Company classified financial instruments according to IFRS 9 effective since 1 January 2018.

2.5.10. Transactions with related parties

The following sales transactions were entered into between the related parties in the reporting period:

	Receivables		Payables	
	Balance at		Balance at	
	30-06-2019	31-12-2018	30-06-2019	31-12-2018
Railway gft	53	60	114	3,745
BPK Poznań	1,151	1,315	1,945	3,038
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	3	0	0	0
Total	1,207	1,375	2,059	6,783

	Revenue		Purchases	
	Period ended		Period ended	
	30-06-2019	30-06-2018	30-06-2019	30-06-2018
Railway gft	204	173	6,737	2,701
BPK Poznań	378	301	4,943	4,124
RTI	2	2	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	5	0	0	0
Total	589	476	11,680	6,825

	Advanced loans		Financial income (interest)	
	Balance at		Period ended	
	30-06-2019	31-12-2018	30-06-2019	30-06-2018
Railway gft	0	2,783	35	46
BPK Poznań	268	0	3	0
RTI	0	21	0	0
RTI Germany	76	59	0	1
Wiesław Nowak	0	0	0	0
Total	344	2,863	38	47

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

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

- Lease of rooms, including utilities and phone services;
- Financial services; and
- Re-invoicing of expenses.

In the reporting period, ZUE issued debit notes for the contractual penalties to the consortium with BPK Poznań as the Leader of PLN 905 thousand. The said penalties were not recognised by the Company in revenues.

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

- Purchase of materials used in connection with the construction and repair of tracks;
- Design services; and
- Printing services.

In the reporting period, ZUE executed the following transactions:

- Lease of business establishments to RTI on the basis of the lease of 31 December 2015;
- Lease of rooms to BPK Poznań on the basis of the lease of 1 October 2015 and the lease of 7 April 2010 and subsequent annexes; and
- Lease of business establishments to Railway gft on the basis of the lease of 10 August 2017 (effective since 1 October 2017) and subsequent annexes.

On 7 January 2019, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 4 thousand to be repaid by 20 December 2019. The loan was disbursed on 11 January 2019.

On 26 February 2019, ZUE and BPK Poznań signed a loan agreement whereby BPK Poznań was granted a special-purpose loan of PLN 300 thousand to be repaid within 36 months of the disbursement date. Principal and interest are repaid monthly. The loan was disbursed on 21 March 2019.

On 29 March 2019, ZUE and Railway gft signed an annex no. 1 to the loan agreement of 24 January 2018 whereby the loan repayment date was extended until 30 June 2019. Under the agreement, the loan could be repaid in instalments. The loan and interest were paid by RGFT.

On 12 April 2019, the Extraordinary Shareholders Meeting decided to increase of the share capital of RTI as a result of which ZUE acquired the newly created RTI shares for PLN 35 thousand.

On 29 April 2019, RTI repaid the loans granted by ZUE plus interest. The repayment concerned the loan agreements of 26 May 2017, 7 December 2017 and 13 April 2018.

On 19 June 2019, ZUE and RTI Germany signed an annex no. 4 to the loan agreement of 31 May 2016 whereby the loan and interest repayment date was extended until 20 December 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 amount of the guarantees as at 30 June 2019 is PLN 24,627 thousand.

Remuneration of key management personnel

	Period ended 30-06-2019	Period ended 30-06-2018
Management Board	1,847	2,286
Supervisory Board	123	244
Total	1,970	2,530

2.5.11. Major 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 have been discussed in detail in the note III 4.7.11 of the consolidated financial statements.

2.5.12. Tax settlements

Tax settlements and other areas of activity may be inspected by the administrative authorities authorised to impose harsh fines and penalties. The applicable laws are unclear and inconsistent because there are no

references to established regulations in Poland. Common differences in opinions on legal interpretation of tax regulations both amongst state authorities and between state authorities and enterprises give rise to uncertainty and conflicts. Accordingly, the tax risk in Poland is much higher than that in the countries with more mature tax systems.

Tax settlements may be inspected within five years of the end of the year the tax was paid in. Additional tax liabilities may be imposed on the Group as a result of such inspections.

No significant or countable tax risks were recognised by the Group at 30 June 2019 or 31 December 2018.

Customs and tax inspection is being carried out at ZUE relating to the tax on income earned in 2014. Pursuant to Art. 82.3 of the Polish Act on National Tax Administration, the Company adjusted the previously submitted tax return and paid the tax of PLN 234 thousand plus interest. The adjustment concerned the acquisition of shares in exchange for claims. No inspection outcome is available at the date of preparation of this report.

2.5.13. Contingent assets and contingent liabilities

Contingent assets

	Balance at 30-06-2019	Balance at 31-12-2018
Bonds	70,070	70,125
Bills of exchange	7,820	7,470
Total	77,890	77,595

Contingent assets in the form of bonds and guarantees include the bonds provided by banks and insurance companies for the benefit of the Company to secure its claims relating to subcontracted construction services and the repayment of received advances.

Contingent liabilities

	Balance at 30-06-2019	Balance at 31-12-2018
Bonds	500,116	587,879
Guarantees	24,627	24,951
Bills of exchange	349,212	342,424
Mortgages	54,259	54,259
Pledges	18,663	19,927
Total	946,877	1,029,440

Contingent liabilities in the form of bonds for the benefit of third parties include, in particular, bid bonds, performance bonds, defects liability bonds, payment 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. The insurance companies and the 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 ZUE as the Parent Company.

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

Mortgages are additional security for the credit agreement with mBank S.A. and the insurance agreement with PZU S.A. and the agreements between the related companies and BNP Paribas Bank Polska S.A.

Registered pledges were established to secure the agreements with BGŻ BNP PARIBAS, PEKAO and BGK. The pledged assets include wagons, pile driver and maintenance train.

2.5.14. Liabilities incurred to purchase property, plant and equipment

There were no major agreements concerning capital expenditures on property, plant and equipment at 30 June 2019 or 31 December 2018.

2.5.15. Discontinued operations

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

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

Construction and assembly operations are marked by the seasonality of production and sales. The topic has been discussed in detail in the note III 2.5 Seasonal and cyclical nature of the Group's operations.

2.5.17. Issue and redemption of debt and equity securities

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

2.5.18. Dividend

No dividend was paid the Company in the reporting period.

On 6 June 2019, the Ordinary General Meeting of the Company resolved to cover the loss for the financial year 2018 of PLN 64,050 in the following way:

- 1) the net loss for the financial year 2018 of PLN 39,435 thousand would be covered from capital reserve; and
- 2) the net loss for the financial year 2018 of PLN 24,615 thousand would be covered from reserve funds.

2.6. Other notes to the financial statements

2.6.1. Use of the 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 2019 as endorsed by the European Union (EU).

The separate financial statements for the six months ended 30 June 2019 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 and approved for use in the European Union come into force in 2019:

- **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);
- **Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments following from the review of IFRS 2015-2017** (effective for annual periods beginning on or after 1 January 2019);
- **IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Company believes that except for IFRS 16, the remaining amendments to the standards or interpretations do not have any considerable influence on the Company's separate financial statements. The implementation of IFRS 16 has been discussed in detail in the note 2.6.2.

Standards and interpretations adopted by the IASB but not yet approved 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 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** (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 to IAS 1 and IAS 8: "Definition of Material"** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

2.6.2. Important accounting principles

2.6.2.1. Going concern

The half-yearly condensed financial statements of the Company have been prepared assuming that the Company will continue in operational existence for at least 12 months after the end of the reporting period; i.e. 30 June 2019.

The financial standing is the most important factor influencing the Company's ability to continue in operational existence. The key factors influencing the Company's ability to continue as a going concern include liquidity, proper backlog and market situation.

The following facts should be taken into account when analysing the Company's financial situation: in the six months ended 30 June 2019, the Company recognised the sales revenue of PLN 455.7m (a year-on-year increase by 57%) and the gross profit of PLN 11.3m. As at 30 June 2019, the Company presented the net current assets of PLN 366.3m, including the cash of more than PLN 17.3m. At the date of preparation of this report, the Company had the backlog worth approx. PLN 1,578m. The Company is in the process of winning new contracts.

Accordingly, the Management Board of ZUE state that there are no significant going concern risks at the date of preparation of these half-yearly condensed financial statements and these financial statements have been prepared assuming that the Company will continue in operational existence for the foreseeable future.

2.6.2.2. Preparation basis

ZUE 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.

2.6.2.3. Comparability of financial information

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

Following the implementation of IFRS 16, in these financial statements and the comparative information, the "Lease liabilities" item has been separated by the Company and presented under equity and liabilities:

- "Non-current lease liabilities;" and
- "Current lease liabilities."

Previously the Company recognised liabilities relating to the financing of property, plant and equipment and obligations under finance lease under "Loans and bank credits and other financing sources." Since 2019, the Company has also recognised liabilities under right-of-use assets in the new separate item.

In addition, the Company has separated "Advance payments" from "Trade and other receivables" and presented it as a separate item in order to make these financial statements and the comparative information clearer.

The Company has also separated "Accruals" and "Advance payments" from "Trade and other payables" and presented them as separate items.

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

	Restated	Approved	
	Balance at	Balance at	Effect of
	31-12-2018	31-12-2018	changes
ASSETS			
Non-current assets			
Total non-current assets	181,913	181,913	0
Current assets			
Trade and other receivables	171,503	188,084	-16,581
Advance payments	16,581	0	16,581
Total current assets	414,705	414,705	0
Total assets	596,618	596,618	0
EQUITY AND LIABILITIES			
Equity			
Total equity	146,242	146,242	0
Non-current liabilities			
Long-term loans and bank credits and other financing sources	0	14,781	-14,781
Long-term loans and bank credits	0	0	0
Non-current lease liabilities	14,781	0	14,781
Total non-current liabilities	34,480	34,480	0
Current liabilities			
Trade and other payables	205,856	335,883	-130,027
Accruals	55,020	0	55,020
Advance payments	75,007	0	75,007
Short-term loans and bank credits and other financing sources	0	12,963	-12,963
Short-term loans and bank credits	0	0	0
Current lease liabilities	12,963	0	12,963
Total current liabilities	415,896	415,896	0
Total liabilities	450,376	450,376	0
Total equity and liabilities	596,618	596,618	0

2.6.2.4. Applied accounting principles

Except for the following changes, these half-yearly separate financial statements for the six months ended 30 June 2019 have been prepared according to the same accounting principles and measurement methods as those used in the last annual financial statements of the Company as at 31 December 2018. The financial statements for the financial year ended 31 December 2018 contain a detailed description of the accounting principles applied by ZUE.

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.

2.6.2.5. Changes to accounting principles and financial statements preparation

Implementation of IFRS 16

Application of IFRS 16 for the first time

The International Financial Reporting Standard 16 Leases (IFRS 16) was issued by the International Accounting Standards Board (IASB) in January 2016 and superseded IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Forms of a Lease. IFRS 16 establishes principles for the measurement, presentation and disclosure of leases.

IFRS 16 introduces a single lessee accounting model eliminating the distinction between operating and finance leases and requires a lessee to recognise the right-of-use asset and a lease liability, except for short-term leases and low value asset leases.

Impact of IFRS 16 on the Company's financial statements

Implementing IFRS 16 with a modified retrospective approach.

The Company applied IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application (modified approach). The date of the initial application of IFRS 16 for the Company is 1 January 2019. The Company has applied a modified approach so there is no requirement to restate comparative financial information. Instead, the Company recognised the cumulative effect of initially applying this Standard as an adjustment to the opening balance at the date of initial application.

The change of the definition of a lease mainly related to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time. The Company applied the definition of a lease and the related guidelines specified in IFRS 16 to all lease contracts signed or amended on or after 1 January 2019 regardless of whether the Company is a lessee or lessor under the contract.

Practical solutions used by the Company

When applying IFRS 16 for the first time, the Company applied the following practical solutions approved of by the standard:

1. Not to recognise operating leases with a lease term less than 12 months of 1 January 2019, which were treated as short-term leases;
2. Not to recognise leases where the underlying asset has a low value; i.e. PLN 20 thousand;
3. To use a single discount rate to a portfolio of leases with similar characteristics;
4. To exclude initial direct costs from the measurement of the right of use asset at the date of initial application;
5. To use knowledge, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Exemptions offered by practical solutions:

Short-term lease	1,049
Lease of low value assets	76
Total exemptions	1,125

As at 1 January 2019, the discount rates applied by the Company to determine the amount of discounted lease payments range from 3.04% to 6.3% for PLN- and EUR-denominated contracts (depending on the term of the lease).

Impact on the Company's accounting

Summary of impact of IFRS 16 on the lessee's accounting:

1. Application of IFRS 16 to lease contracts previously classified as operating leases under IAS 17 caused the recognition of right-of-use assets and lease liabilities.
2. Non-current assets held under finance lease contracts previously presented under property, plant and equipment were presented under right-of-use assets.
3. Lease liabilities previously classified as finance lease contracts under IAS 17 and disclosed under loans and bank credits and other financing sources were presented in (short- and long-term) lease liabilities.
4. The disclosure requirements contained in IAS 40 were applied to right-of-use assets that met the definition of investment property.

Right-of-use assets recognised as at 1 January 2019 (contracts which contain a lease)

The Company is a lessee of cars, apartments, land and leasehold land.

Lease of cars	673
Lease of apartments, land and office equipment	1,745
Leasehold land	4,127
Total	6,545

Right-of-use assets recognised as at 1 January 2019 which meet the requirements of the definition of investment property

A right-of-use asset is presented separately by the Company according to IAS 40.

Leasehold land in investment property	1,359
---------------------------------------	-------

Right-of-use liabilities recognised as at 1 January 2019 (contracts which contain a lease)

Lease of cars	673
Lease of apartments, land and office equipment	1,745
Leasehold land	4,127
Leasehold land in investment property	1,359
Total	7,904

Contracts previously recognised as finance lease

For the leases classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is the carrying amount of lease asset and lease liability immediately before that date measured applying IAS 17.

Presentation at 1 January 2019:

Right-of-use liabilities	27,744
Right-of-use assets	51,444

The amount of PLN 27,744 thousand includes vehicles, machines and technical equipment leased under IAS 17.

Right-of-use assets – reclassified from intangible assets

Leasehold land	7,925
----------------	-------

Impact of the implementation of IFRS16 on the financial statements

At the date of application of IFRS 16, the Company recognised the right-of-use assets of PLN 7,904 thousand and the lease liabilities of PLN 7,904 thousand.

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

	According to IFRS 16	Approved	
	Balance at 2019-01-01	Balance at 2018-12-31	Effect of changes
ASSETS			
Non-current assets			
Property, plant and equipment	50,371	101,815	-51,444
Investment property	10,001	8,642	1,359
Intangible assets	190	8,115	-7,925
Right-of-use assets	65,914	0	65,914
Total non-current assets	189,817	181,913	7,904
Total current assets	414,705	414,705	0
Total assets	604,522	596,618	7,904
	According to IFRS 16	Approved	
	Balance at 2019-01-01	Balance at 2018-12-31	Effect of changes
EQUITY AND LIABILITIES			

Total equity	146,242	146,242	0
Long-term loans and bank credits and other financing sources	0	14,781	-14,781
Long-term loans and bank credits	0	0	0
Long-term lease liabilities	21,225	0	21,225
Total non-current liabilities	40,924	34,480	6,444
Short-term loans and bank credits and other financing sources	0	12,963	-12,963
Short-term loans and bank credits	0	0	0
Short-term lease liabilities	14,423	0	14,423
Total current liabilities	417,356	415,896	1,460
Total liabilities	458,280	450,376	7,904
Total equity and liabilities	604,522	596,618	7,904

2.6.3. Sources of estimation uncertainty

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

The estimates relate, *inter alia*, to:

Impairment of goodwill (note no. 2.5.5.)

Useful economic lives of non-current assets

Loss allowances for receivables (note no. 2.3.1.)

Provisions (note no. 2.2.3.)

Measurement of long-term construction contracts (note no. 2.2.1.)

Deferred income tax (note no. 2.1.7.)

Contingent assets and contingent liabilities (note no. 2.5.13.)

Uncertainty over tax settlements (note no. 2.5.12.)

The following revisions to estimates occurred in the reporting period:

1/ Construction contracts accounted for using percentage-of-completion method – the revision was influenced by the inspection of the construction contract budgets. Following the inspection, the income and expenditure budget for the contracts changed. The revisions did not have any material influence of the Company's results in the reporting period.

2/ Useful economic lives of non-current assets – the revision was influenced by the interim verification of useful economic lives of vehicles.

3. Approval of the condensed separate financial statements

These condensed separate financial statements for the six months ended 30 June 2019 were approved for publication by the Management Board of ZUE on 20 August 2019.

Statement by the Management Board of ZUE

Preparation of half-yearly condensed separate financial statements

On the basis of the Regulation of the Minister of Finance of 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.

4. Signatures

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

Signatures of the management personnel:

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