



CURRENT REPORT 6 / 2019

8 March 2019

Legal basis: Art. 17.1 of the MAR – Confidential Information.

Subject: Preliminary Financial Results for 2018.

Content:

The Management Board of ZUE S.A. (the "Company," ZUE) inform that after they had completed on 8 March 2019 aggregating financial data for the purpose of preparation of 2018 consolidated financial statements of the Capital Group and the financial statements of the Company, a decision was made to publish preliminary financial results for the abovementioned period.

Preliminary financial results of ZUE for 2018:

- Sales revenue: PLN 763,757 thousand;
- Gross profit (loss): PLN - 62,035 thousand;
- Net profit (loss): PLN - 64,049 thousand.

Preliminary financial results of the Capital Group for 2018:

- Sales revenue: PLN 832,725 thousand;
- Gross profit (loss): PLN - 56,038 thousand;
- Net profit (loss): PLN - 62,585 thousand.

The Company informs that the cash held by ZUE at the end of December 2018 amounted to approx. PLN 79,404 thousand.

Following the audit of the construction contract budgets (the basis for the preparation of the financial statements) carried out twice a year, the Management Board of the Company decided to reduce the projected margins for certain railway construction contracts performed for PKP PLK S.A. For a number of contracts, the projected margins would drop to less than zero. This refers to the contracts won mainly in 2016 and 2017. The reasons for the situation include, first and foremost, the obstacles unrelated to the Company, which prevent the performance of the said contracts according to the initial assumptions accepted at the tendering phase on



the basis of the documentation provided to the contractors. Based on the said assumptions, material and financial schedules were prepared by the Company whereby the Company entered into master agreements for the supply of key building materials, provided staff and equipment, gathered the offers submitted by subcontractors and service providers and prepared the funds required to finance the project.

The obstacles (such as undefined legal status of plots, delayed administrative procedures, unavailable job sites, technical conditions – including surveying documentation and the condition of facilities - different from the terms of reference, results of expert opinions, changes to applicable laws or expectations of local communities) are independent of the contractor and often of the contracting authority. However, the risk of the said obstacles is on the contracting authority and entitles the contractor to claim additional payment. The evaluation of an influence of the obstacles on a project critical path entails significant changes to the material and financial schedules in order to adjust them to the conditions different from the initial assumptions. The foregoing circumstances were accompanied by a radical increase in the costs of construction contract performance, including the cost of labour, building materials, services provided by subcontractors and logistic services. The increase could not be predicted at the tendering phase and influenced the entire industry. Rescheduling of project stages and work phases accompanied by the pressure to meet the final deadlines made the Company work on several tasks at the same time. Accordingly, the Company was forced to use more resources, which combined with a sharp cost increase was reflected in the projected margins. The Company is partially protected against a radical increase in prices of building materials by a number of master agreements for the supply of strategic materials signed at the beginning of 2017. However, it has no influence on other cost increases faced by the construction industry, especially labour costs, but must deal with their consequences.

According to the law and the contracts signed by the Company, remuneration payable to the contractor may be changed if specific risks occur independently of the contractor. Accordingly, the Company consistently lodges and supports its claims including, in particular, the claim to increase the remuneration payable to the contractor according to the rules set out in the contracts entered into with the contracting authority and the applicable laws. The Company has started relevant procedures and talks to the authorised representatives of the contracting authority about the key projects. Time-consuming procedures are one of the factors influencing the presented financial results. The procedures are pending so the claims lodged by the Company cannot be included in the presented financial results.



The Company intends to continue and complete the projects according to the contracts but it also intends to make reasonable changes thereto, especially to the amount of its remuneration. The Company will continue to talk to the contracting authority for them to consider the contract claims according to the law and the contracts signed by the Company.

The Company did not use any available credit lines in 2018 and financed its operating activities with own resources.

Two subsidiaries within the Group produced positive financial results in 2018.

At the date of publication of this current report, the Group companies have the backlog worth about PLN 2bn. In addition, the Company awaits the outcome of tenders worth approx. PLN 650m. ZUE continues to expand its backlog taking account of risks and logistic advantages and increases its share in the urban contract portfolio.

ZUE informs that detailed information about the backlog and the final financial results will be provided in the reports of the Company and the Capital Group for 2018.