



ZUE Capital Group

**CONSOLIDATED QUARTERLY REPORT
FOR 9 MONTHS ENDED 30 SEPTEMBER 2017**

Cracow, 7 November 2017

Contents of the consolidated quarterly report:

- I. Selected Financial Data of the Group.
- II. Condensed Consolidated Financial Statements of the Group and Notes to the Financial Statements.
- III. Selected Financial Data of ZUE.
- IV. Condensed Separate Financial Statements of ZUE and Notes to the Financial Statements.

Abbreviations and definitions:

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

Share capital details as at 30 September 2017.

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ZUE Capital Group

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR 9 MONTHS ENDED 30 SEPTEMBER 2017**

Cracow, 7 November 2017

I. SELECTED FINANCIAL DATA OF THE GROUP

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

	As at 30-09-2017		As at 31-12-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	159,059	36,912	143,917	32,531
Current assets	230,936	53,593	219,456	49,606
Total assets	389,995	90,505	363,373	82,137
Equity	197,088	45,738	209,282	47,306
Non-current liabilities	28,117	6,525	25,823	5,837
Current liabilities	164,790	38,242	128,268	28,994
Total equity and liabilities	389,995	90,505	363,373	82,137

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

	Period ended 30-09-2017		Period ended 30-09-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	233,459	54,846	220,614	50,498
Cost of sales	229,705	53,964	215,697	49,372
Gross profit (loss) on sales	3,754	882	4,917	1,125
Profit (loss) on operating activities	-11,647	-2,736	-7,586	-1,736
Gross profit (loss)	-13,992	-3,287	-6,869	-1,572
Net profit (loss) from continuing operations	-12,144	-2,853	-6,106	-1,398
Total comprehensive income	-12,194	-2,865	-6,093	-1,395

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

	Period ended 30-09-2017		Period ended 30-09-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-65,839	-15,468	-48,863	-11,185
Cash flows from investing activities	39,804	9,351	-6,151	-1,408
Cash flows from financing activities	6,827	1,604	-8,646	-1,979
Total net cash flows	-19,208	-4,513	-63,660	-14,572
Cash at the beginning of the period	62,717	14,177	172,334	40,440
Cash at the end of the period	43,101	10,002	108,918	25,259

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 30-09-2017	Exchange rate on 31-12-2016	Exchange rate on 30-09-2016
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.3091	4.4240	4.3120
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	4.2566	4.3757	4.3688
"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	4.3091	4.4240	4.3120

II. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Consolidated statement of comprehensive income

	Note no.	9 months ended	3 months ended	9 months ended	3 months ended
		30-09-2017	30-09-2017	30-09-2016	30-09-2016
Continuing operations					
Revenue	30	233,459	125,616	220,614	92,840
Cost of sales		229,705	116,043	215,697	93,470
Gross profit (loss)		3,754	9,573	4,917	-630
General and administrative expenses		15,499	5,140	15,033	4,408
Other operating income	31	3,063	343	3,962	903
Other operating expenses	32	2,965	898	1,432	840
Profit (loss) on operating activities		-11,647	3,878	-7,586	-4,975
Financial income	33	802	94	1,651	-91
Financial expenses	34	3,147	466	934	306
Pre-tax profit (loss)		-13,992	3,506	-6,869	-5,372
Corporate income tax	35	-1,848	672	-763	-826
Net profit (loss) from continuing operations		-12,144	2,834	-6,106	-4,546
Net profit (loss)		-12,144	2,834	-6,106	-4,546
Other net comprehensive income					
Items that will not be reclassified subsequently to profit or loss:		-50	0	13	0
Actuarial gains (losses) concerning specific benefit schemes		-50	0	13	0
Other total net comprehensive income		-50	0	13	0

Total comprehensive income	-12,194	2,834	-6,093	-4,546
Number of shares	23,030,083	23,030,083	23,030,083	23,030,083
Consolidated net profit attributable to:				
Shareholders of the parent	-11,707	2,853	-5,658	-4,408
Non-controlling interests	-437	-19	-448	-138
Net profit (loss) per share attributable to shareholders of the parent (PLN) (basic and diluted)	-0.51	0.12	-0.25	-0.20
Total comprehensive income attributable to:				
Shareholders of the parent	-11,757	2,853	-5,645	-4,408
Non-controlling interests	-437	-19	-448	-138
Total comprehensive income per share (PLN)	-0.51	0.12	-0.25	-0.20

Consolidated statement of financial position

(PLN '000)

	Note no.	As at 30-09-2017	As at 31-12-2016
ASSETS			
Non-current assets			
Property, plant and equipment	36	91,895	83,416
Investment property	37	4,464	3,717
Intangible assets		9,201	9,595
Goodwill	38	31,172	31,172
Investments in non-consolidated subsidiaries		0	0
Advance payments for investments in subordinates		0	0
Long-term receivables		0	0
Retentions on construction contracts	44	11,799	7,334
Deferred tax assets	35	10,523	8,683
Advanced loans		5	0
Other assets		0	0
Total non-current assets		159,059	143,917
Current assets			
Inventories	40	41,834	11,287
Trade and other receivables	41	144,976	86,609
Retentions on construction contracts	44	259	2,177
Current tax assets	35	0	64
Other financial assets	39	0	54,935
Other assets		766	1,378
Advanced loans		0	289
Cash and cash equivalents		43,101	62,717
Total current assets		230,936	219,456
Total assets		389,995	363,373

	Note no.	As at 30-09-2017	As at 31-12-2016
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		100,634	112,391
Total equity attributable to shareholders of ZUE		197,539	209,296
Equity attributable to non-controlling interests		-451	-14
Total equity		197,088	209,282
Non-current liabilities			
Long-term loans and bank credits and other financing sources	42	13,658	8,892
Retentions on construction contracts	44	5,856	6,792
Other financial liabilities		420	630
Liabilities under employee benefits		1,939	1,864
Deferred tax liabilities	35	0	0
Long-term provisions	43	6,244	7,645
Deferred income		0	0
Other liabilities		0	0
Total non-current liabilities		28,117	25,823
Current liabilities			
Trade and other payables	45	118,872	82,094
Retentions on construction contracts	44	6,385	9,185
Short-term loans and bank credits and other financing sources	42	17,146	14,194
Other financial liabilities		316	317
Liabilities under employee benefits		18,157	17,928
Current tax liabilities	35	0	0
Short-term provisions	43	3,914	4,550
Total current liabilities		164,790	128,268
Total liabilities		192,907	154,091
Total equity and liabilities		389,995	363,373

Consolidated statement of changes in equity

(PLN '000)

		Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the parent	Equity attributable to non-controlling interests	Total equity
Balance at	1 Jan 2017	5,758	93,837	-2,690	112,391	209,296	-14	209,282
Change of interest in subsidiaries		0	0	0	0	0	0	0
Dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	-11,707	-11,707	-437	-12,144
Other net comprehensive income		0	0	0	-50	-50	0	-50
Balance at	30 Sept 2017	5,758	93,837	-2,690	100,634	197,539	-451	197,088

		Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the parent	Equity attributable to non-controlling interests	Total equity
Balance at	1 Jan 2016	5,758	93,837	-2,690	119,050	215,955	389	216,344
Change of interest in subsidiaries		0	0	0	0	0	0	0
Dividend		0	0	0	-7,513	-7,513	0	-7,513
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	-5,658	-5,658	-448	-6,106
Other net comprehensive income		0	0	0	13	13	0	13
Balance at	30 Sept 2016	5,758	93,837	-2,690	105,892	202,797	-59	202,738

Consolidated statement of cash flows

(PLN '000)

	Period ended 30-09-2017	Period ended 30-09-2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-13,992	-6,869
Adjustments for:		
Depreciation and amortisation	7,297	7,168
Foreign exchange gains / (losses)	408	-244
Interest and share in profit (dividends)	410	-586
(Gain) / loss on disposal of investments	-1,157	-134
Accrued expenses under commission on credits	4	0
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit (loss) before changes in working capital	-7,030	-665
Change in receivables and retentions on construction contracts	-60,798	-28,834
Change in inventories	-30,549	6,044
Change in provisions and liabilities under employee benefits	-1,732	-10,107
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	33,547	-17,709
Change in accrued expenses	639	498
Change in funds of limited availability	0	0
Other adjustments	0	110
Income tax paid / tax refund	84	1,800
NET CASH FROM OPERATING ACTIVITIES	-65,839	-48,863
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	847	440
Purchase of property, plant and equipment and intangible assets	-16,114	-7,636
Investments in real property and intangible assets	0	0
Sale / (purchase) of financial assets in other entities	0	0
Sale / (purchase) of financial assets from non-controlling shareholders	0	0
Purchase of financial assets available for sale	0	0
Cash payments to purchase debt instruments of other entities	-166,950	0
Cash from repurchase of debt instruments of other entities	221,575	0
Advanced loans	-9	-315
Repayment of granted loans	4	74
Dividends received	0	0
Interest received	142	1,286
Gain/loss on repurchase of debt instruments	309	0
Settlement of financial instruments – expenses	0	0

Cash from acquisition of subsidiary	0	0
Sale of financial assets in associates	0	0
Other cash provided by/(used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	39,804	-6,151
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	16,407	5,143
Repayment of loans and bank credits	-1,000	-200
Decrease in finance lease liabilities	-7,965	-5,624
Interest paid	-614	-452
Other cash provided by / (used in) financing activities – dividends	-1	-7,513
Net cash from issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	6,827	-8,646
TOTAL NET CASH FLOWS	-19,208	-63,660
Net foreign exchange gains / (losses)	-408	244
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	62,717	172,334
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	43,101	108,918

Notes to Condensed Consolidated Financial Statements of the Group

1. Functional and reporting currency

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

2. Use of International Financial Reporting Standards

Statement of compliance

The condensed consolidated financial statements have been drawn up in accordance with IAS 34 as at 30 September 2017 as endorsed by the European Union (EU).

The quarterly consolidated financial statements for the nine months ended 30 September 2017 have been prepared according to the Regulation of the Minister of Finance of 19 February 2009 (as amended) 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

No amendments to the existing standards published by the International Accounting Standards Board (IASB) and approved for use in the European Union, which would come into force for the first time in the consolidated financial statements for 2017, occurred when approving these financial statements.

Standards and interpretations published by the EU but not yet effective

When approving these financial statements, the following new standards and amendments to the standards were published by the International Accounting Standards Board (IASB) and approved for use in the EU but did not come into force:

- **IFRS 9 “Financial Instruments”** - approved of in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective Date of IFRS 15” - approved of in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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

- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019);
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 2 “Share-based Payment”** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 “Insurance Contracts”** – Use of IFRS 9 “Financial Instruments” and IFRS 4 “Insurance Instruments” (effective for annual periods beginning on or after 1 January 2018 or upon the use of IFRS 9 “Financial Instruments” for the first time);
- **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 7 “Statement of Cash Flows”** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 “Income Taxes”** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards “Improvements to IFRSs (2014-2016 Cycle)”** – made as part of annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) aimed mainly at the resolution of inconsistencies and specification of vocabulary (amendments to IFRS 12 effective for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018);
- **Clarifications to IFRS 15 “Revenue from Contracts with Customers”** (effective for annual periods beginning on or after 1 January 2018);
- **International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018);
- **International Financial Reporting Interpretations Committee's (IFRIC) 23 Uncertainty over Income Tax Treatments** (effective for annual periods beginning on or after 1 January 2019).

The Group is analysing IFRS 15 “Revenue from Contracts with Customers” and IFRS 16 “Leases.” The initial assessment has shown that IFRS 15 should not have any material influence on the financial statements. Detailed analysis of IFRS 16 will be carried out in 2018.

The Group believes that the remaining changes to IFRS should not have any material influence on the financial statements.

3. Important accounting principles

Going concern

The quarterly consolidated financial statements have been prepared assuming that the Group will continue in operational existence for the foreseeable future. No going concern risks exist at the end of the reporting period.

Preparation basis

The Group has prepared these quarterly consolidated financial statements according to the regulations set out in IAS 34 "Interim Financial Reporting" and used the same principles for current and comparative period.

Comparability of financial information

No changes in the presentation of financial information have been made in the comparative periods.

Applied accounting principles

These quarterly consolidated financial statements for the nine months ended 30 September 2017 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 2016. The financial statements for the financial year ended 31 December 2016 contain a detailed description of accounting principles used by the Group.

These quarterly 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. Revisions to estimates

The preparation of financial statements in conformity with the IFRS requires the Management Board to make judgments, estimates and assumptions that affect the adopted 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.

Note no. 43 presents the changes in provisions.

Operational information

5. Composition of the Capital Group

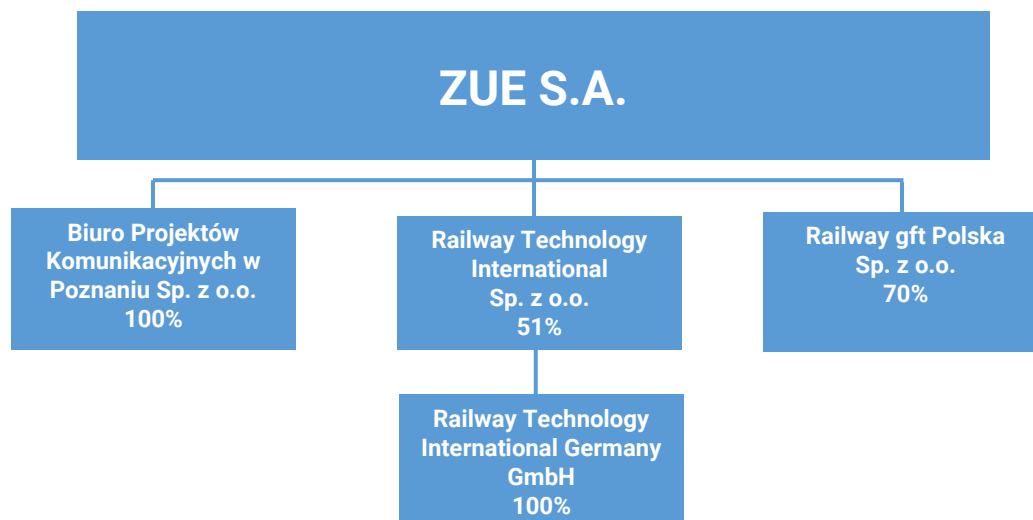
At the end of the reporting period, the Capital Group is composed of ZUE S.A. (parent company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o and Railway Technology International Germany GmbH (indirect subsidiary).

ZUE Spółka Akcyjna with registered office in Cracow (ul. Kazimierza Czapińskiego 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 on 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, ul. Lubicz 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.

On 1 June 2017, RTI changed its registered office from Hamburg to Görlitz.

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

6. Consolidated companies

Consolidated companies at 30 September 2017:

Company	Registered office	Interests as at		Consolidation method
		30 September 2017	31 December 2016	
ZUE S.A.	Cracow	Parent company	Parent company	
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	Full

Railway gft Polska Sp. z o.o.	Cracow	70%	70%	Full
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ZUE is entitled to manage the financial and operating policy of BPK Poznań and Railway gft because it holds a 100% and 70% interest, respectively, in these companies.

ZUE holds a 51% interest in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Sp. z o.o. is not consolidated as at 30 September 2017.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Germany GmbH is not consolidated as at 30 September 2017.

7. Changes on the Group's structure and their consequences

No changes to the Group's structure occurred in the reporting period.

8. Activities of the Capital Group

The Group identifies the three aggregate operating segments:

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

Construction activities include:

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

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

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

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

The segments' financial data has been presented in note 48.

9. Sales markets

In the reporting period, the Group continued its construction, design and sales activities. The Group's sales markets reflect the abovementioned segments and the scope of activities.

In the reporting period, construction services were mainly provided to:

- PKP Polskie Linie Kolejowe S.A. – the following contracts were performed by ZUE:
 - Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadolin – Tarnów section between 61,300 km and 80,200 km as part of the following project: “Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III;”
 - Strengthening of the substructure on the line no. 139 Katowice – Zwardoń, tracks no. 1 and 2, section from 10,300 km to 25,360 km in the selected locations, and on the line no. 93 Trzebinia – Zebrzydowice, section from 62,260 km to 68,780 km in the selected locations, plus the accompanying works and services provided in connection with Substructure Repair Train with the use of AHM-800R formation rehabilitation machine, RM80 ballast cleaning machine and 20 hopper cars of type 426 Vb, representing the potential of the Contracting Authority - Zakład Maszyn Torowych w Krakowie;
 - Upgrade of the railway line no. 62 on the Dąbrowa Górnicza Strzemieszyce – Sosnowiec Dańdówka section as part of the following project: “Services in the railway lines no. 62 and 660 on the Tunel – Bukowno – Sosnowiec Płd section;”
 - Design and construction services in connection with the following project: “Works on the line no. 7 of the Lublin - Dorohusk section – stage I” performed as part of the following project: “Works on the line no. 7 of the Lublin - Dorohusk section;”
 - Upgrade of the railway line no. 273 of the Głogów - Zielona Góra - Rzepin - Dolna Odra section. Reconstruction of tracks, platforms and viaduct in the Zielona Góra station;
 - Design services and completion of power works in connection with the following project: “Works on the Poznań Wschód – Dziarnowo line no. 353, the Mogilno – Kołodziejewo – Janikowo section;”
 - Development of design documentation and completion of construction and assembly works as part of the following project: “Works on the Kraków Mydlniki – Podłęże railway line no. 95 of the Kościelniki – Podłęże section” executed as part of the following project: “Works on the line E 30 of the Kraków Główny Towarowy – Rudzice section and the construction of additional tracks of the urban railway line;”
 - Provision of design services and completion of works in connection with the following project: “Preparation of documentation and completion of construction works on the Skarżysko Kamienna – Suchedniów section, railway line no. 8” as part of the following project: “Modernisation of Radom – Kielce railway line no. 8;”
 - Provision of design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: “Investment project at the Medyka - Mościska II border crossing;”
 - Completion of construction works on the Ostrowite – Biskupiec Pomorski and Biskupiec Pomorski – Jamielnik routes as part of the following project: “Works on the line no. 353 of the Jabłonowo Pom - Iława - Olsztyn – Korsze section;”
 - Provision of design services and completion of works in connection with the following project: “Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola;”
 - Provision of design services and completion of construction works in connection with the following project: “Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section” as part of 2014 Infrastructure and Environment Operational Programme (IEOP);”
 - Provision of design services and completion of construction works in connection with the following project: “Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section);”

- Completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: “Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section” executed as part of the Connecting Europe Facility (CEF) EU financial instrument;
- Preparation of building and detailed designs and the completion of LOT B works as part of “design-build” project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 7.1-19.1.a: “Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section” – Phase II;
- Design and construction services in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.2 – 4 “Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section;”
- Reconstruction of OCL network on the Idzikowice – Opoczno Południe and Opoczno Południe – Olszawowice routes, railway line no. 4 of the main railway line as part of the following project: Upgrade of the railway line no. 4 – Main Railway Line, stage II;”
- Preparation of design documentation and completion of construction works in connection with a “design-build” contract as part of the following project: “Works on the railway line no. 1 of the Częstochowa – Zawiercie section;”
- Preparation of design documentation and completion of construction works in connection with a “design-build” contract as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16 “Improvement of capacity of E 20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the Łowicz Local Traffic Control Centre (LCS) section;”
- Modernisation of OCL network, the B1.G Krzewie - Kłodawa section (140,000-155,000).
- Tramwaje Warszawskie Sp. z o.o. – the following contract was performed by ZUE: Construction of tram line to Tarchomin – stage II.
- Gmina Miejska Kraków [*the City of Cracow*] represented Zarząd Infrastruktury Komunalnej i Transportu w Krakowie:
 - Contracts performed as part of infrastructure maintenance agreements: “Maintenance and repair of tram infrastructure in Cracow in the period 2015 – 2018 and Maintenance of street lighting infrastructure in Cracow.
 - Reconstruction of the Basztowa Street in Cracow and reconstruction of tramway tracks, OCL network and dehydrating and lightening system as well as reconstruction of colliding technical infrastructure and reconstruction of tramway tracks in the intersection of the Basztowa -Długa and Westerplatte Streets.
 - Tramway tracks overhaul in the Grzegórzecka Street in Cracow.
- Tramwaje Szczecińskie Sp. z o.o. – performance of the following contract: Design and supply of equipment and performance of construction work consisting in the replacement of hand-operated drives for electrical drives for two switches built into tram lines at the intersection of the Piastów Avenue and the Jagiellońska Street in Szczecin.
- Miejskie Przedsiębiorstwo Komunikacyjne S.A. w Krakowie – performance of the following contracts: “Construction of a new depot for the underfloor wheel lathe and accessory equipment” and “Works to ensure the smooth and efficient functioning of tracks, switches, overhead contact lines in Podgórze Tram Maintenance Depot and the Nowa Huta Tram Depot of Miejskie Przedsiębiorstwo Komunikacyjne Spółka Akcyjna w Krakowie (Kraków City Public Transport Corporation) as well as managing the ongoing operation of the medium voltage power-supply system from (15 kV) branch stations OS-1, OS-2, OS-4 as well as the container transformer station in Nowa Huta Tram Depot.”
- Municipal Council of Elbląg: “Reconstruction of the regional road no. 504, stage II – construction of tracks and tramway traction in the Gen. Grota Roweckiego and 12 Lutego Streets in Elbląg.”
- Lublin City: “Construction of trolleybus overhead contact lines in the Jana Pawła II Street from the Granitowa Street up to Al. Kraśnicka, on Al. Kraśnickiej from the Jana Pawła II Street up to the trolleybus terminus at

the intersection of the Jana Pawła II Street and the Granitowa Street, as well Węglin trolleybus substation, power supply connections for trolleybus stops in the Jana Pawła II Street, as well as trolleybus stop shelters in the Muzyczna and the Jana Pawła II Streets in Lublin."

- Other contracts performed in the reporting period:
 - Modernisation of the *Bieńczyce* traction substation in Cracow;
 - Control and switch-point heating systems as well as installation of overhead contact lines - within the framework of the following task: "Modernisation of track system at the Kocmyrzowskie Roundabout hub together with auxiliary infrastructure;"
 - Park & Ride Bieżanów in Cracow;
 - Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow and additional contract;
 - Design services, obtaining of administrative decisions and architect's supervision in connection with the following future project: "Modernisation of the Biłgoraj – Nisko 110 kV line (line going through 9,034 km in the area of PGE Dystrybucja S.A. Zamość Branch);"
 -
 - Design services, obtaining of administrative decisions and architect's supervision in connection with the following future project: "Modernisation of the Biłgoraj – Nisko 110 kV line (line going through 34,846 km in the area of PGE Dystrybucja S.A. Rzeszów Branch)".

Design services relating to urban and rail communication systems are provided both to investors and companies, which execute "design-build" projects. The biggest clients of BPK Poznań in the reporting period included: PKP Polskie Linie Kolejowe S.A., Poznańskie Inwestycje Miejskie, Tramwaje Warszawskie Sp. z o.o., MPK Poznań Sp. z o.o., Urząd Miasta Brwinów [*the Municipal Council of Brwinów*], Euroconsult sp. z o.o. and MZK Bydgoszcz.

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

10. Order book

At this report preparation date, the net value of the Group's book of orders is approx. PLN 2,190m, including construction and assembly services worth approx. PLN 2,157m, and provides it with an ability to provide the services in the period 2017-2021. As for design services, the net value of the signed contracts is PLN 11m. The book of orders for the supply of materials and equipment is worth PLN 22m (net).

Contracts underway whose individual net value exceeds PLN 10m:

- Maintenance and repair of tram infrastructure in Cracow in the period 2015-2018. Net value: PLN 42.6m;
- Design and completion of construction works as well as modernisation services on the Cracow – Medyka – state border railway line, Białolino – 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, Cracow – Rzeszów section, stage III." Total net value attributable to ZUE is PLN 180.9m;
- Construction works on Kościelniki – Podłęże line no. 95. Net value attributable to ZUE is PLN 27.4m;
- Provision of design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: "Investment project at the Medyka - Mościska II border crossing." Net value: PLN 41.5m;
- Provision of design services and completion of works in connection with the following project: "Preparation of documentation and completion of construction works on the Skarżysko Kamienna – Suchedniów section, railway line no. 8" as part of the following project: "Modernisation of Radom – Kielce railway line no. 8. Net value attributable to ZUE is PLN 25.8m;
- Completion of construction works on the Ostrowite – Biskupiec Pomorski and Biskupiec Pomorski – Jamielnik routes as part of the following project: "Works on the line no. 353 of the Jabłonowo Pom - Hawa - Olsztyn – Korsze section." Net value: PLN 27.9m;

- Provision of design services and completion of construction works in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of 2014 Infrastructure and Environment Operational Programme (IEOP). Net value attributable to ZUE is PLN 124.5m;
- Provision of design services and completion of construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section)." Net value attributable to ZUE is PLN 52.7m;
- Provision of design services and completion of works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola." Net value: PLN 281.0m;
- Completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF) EU financial instrument. Net value attributable to ZUE is PLN 233.0m;
- Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow." Net value attributable to ZUE is PLN 49.5m;
- Preparation of building and detailed designs and the completion of LOT B works as part of "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II. Net value attributable to ZUE is PLN 71.9m;
- Reconstruction of the Basztowa Street in Cracow and reconstruction of tramway tracks, OCL network and dehydrating and lightening system as well as reconstruction of colliding technical infrastructure and reconstruction of tramway tracks in the intersection of the Basztowa -Długa and Westerplatte Streets. Net value attributable to ZUE is PLN 13.2m;
- Design and construction services in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section." Net value: PLN 174.5m;
- Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.2-6 "Works on the railway line no. 1 of the Częstochowa – Zawiercie section." Net value: PLN 371.6m;
- Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16 "Improvement of capacity of E 20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the Łowicz Local Traffic Control Centre (LCS) section." Net value: PLN 79.8m;
- Modernisation of OCL network, the B1.G Krzewie - Kłodawa section (140,000-155,000). Net value: PLN 32.9m;
- Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions. Net value: PLN 16.2m;
- Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section, Infrastructure and Environment Operational Programme (POIiŚ) 5.1-12. Net value: PLN 303.0m;
- Design services and construction works in connection with the following project: "Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section" executed as part of Eastern Poland Operating Programme." Net value: PLN 378.8m.

The total value of the construction contracts signed in 2017 by the Company is approx. PLN 2.2bn.

At the date of preparation of this report, ZUE submitted (either independently or as a consortium member) the most economically advantageous tenders in the following tender proceedings:

Project	[Net] value of ZUE's tender [PLN m]
Construction of transport hub – the Zawodzie hub as part of the following project: "Katowice System of Integrated Transport Hubs – the Zawodzie hub."	27.0
Sustainable city transport in Gorzów Wlkp. – Reconstruction of tracks in the Walczaka Street.	14.9
Design services and construction works in connection with the following	

project: "Construction of the Czarnca - Włoszczowa Płn. railway line no. 582."	40.2
TOTAL	82.1

Apart from this, the Issuer participates in tender procedures for the estimated total amount of approx. PLN 1.5bn.

11. Major achievements or failures

The reporting period results improved when compared with the first half of 2017 as a result of profits recorded in the third quarter of 2017 influenced, first and foremost, by an increase in sales. Compared to 1H 2017, sales volume doubled in 3Q 2017. However, this could not entirely eliminate a loss reported in 2017.

By this report preparation date, no major events occurred other than the events described in detail in section 12 below.

12. Major events in the reporting period

Construction works:

On 20 January 2017, the consortium of Trakcja PRKiI S.A. (Leader), COMSA S.A., ZUE S.A., STRABAG sp. z o.o. and STRABAG Rail a.s entered into the design and construction contract with PKP PLK in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of the Infrastructure and Environment Operational Programme (IEOP) 5.2-5. The Company informed about the submission of the lowest price tender for the said project and the selection of the most economically advantageous tender in the current report 50/2016 and the current report 56/2016, respectively. The contract net value: 373.7m. The contract gross value: PLN 459.7m. The expected net remuneration attributable to the Company: PLN 124.5m. The project completion date: 30 months of the contract conclusion date. **(Current report 4/2017)**

On 17 February 2017, the consortium of Budimex S.A. (Leader), STRABAG sp. z o.o., STRABAG Rail a.s, STRABAG Rail GmbH, STRABAG Általános Építő Kft. and the Company signed the design and construction contract with PKP PLK for the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia - Warszawa Gdańska section)." The Company informed about the selection of the consortium's tender as the most economically advantageous offer in the current report 53/2016. Net value of the contract: PLN 159.7m. The expected net remuneration attributable to the Company: PLN 52.7m. Project completion date: 26 months of the commencement of works. **(Current report 10/2017)**

On 23 February 2017, the Company informed that that the 90-day period of being bound by the tender had expired on 22 February 2017. The said tender was submitted in the tender procedure for the following project: "Preparation of design documentation and obtaining necessary administrative decisions as well as the construction of KST tram line, stage III (os. Krowdrza Górka – Górka Narodowa) and a two-level interchange along the Opolska Street in Cracow together with accompanying road infrastructure" (the "Project"). The Company informed about the submission of the lowest price tender in the current report 57/2016. At the request of the Contracting Authority; i.e. Zarząd Infrastruktury Komunalnej i Transportu w Krakowie, the Company intended to approve by the date specified by the Contracting Authority; i.e. 22 February 2017, of the extension of the said 90-day period by 60 days and extend the expiry date of the bid bond on part of ZUE. Therefore, ZUE (the Consortium Leader) asked PORR Polska Infrastruktura S.A. (the Consortium Member) to give their analogous approval necessary to extend the 90-day period for the entire Consortium and the expiry date of the bid bond on part of PORR Polska Infrastruktura S.A. PORR Polska Infrastruktura S.A. failed to give their approval to the said extension and to provide their part of the bid bond by the date specified by the Contracting Authority; i.e. 22 February 2017. Consequently, the Consortium Member stopped their efforts to win the contract for reasons unrelated to the Company. The Consortium Member's failure to give their approval and to provide their part of the bid bond prevented the Consortium from participation in the tender procedure. **(Current report 11/2017)**

On 23 February 2017, the Company learnt about the Company's submission of the lowest price tender in the tender procedure for the development of design documentation and completion of construction works on the Kraków Płaszów – Podbory Skawińskie section as part of the following project: "Works on the railway line no. 94 of the Kraków Płaszów – Skawina – Oświęcim section. Net value of the tender submitted by the Company: PLN 155.9m. Gross value of the tender submitted by the Company: PLN 191.8m. Project completion date: 1065 days

of the contract conclusion date. On 15 May 2017, the Company learnt from PKP PLK about the rejection of the Company's tender on 12 May 2017 and the selection of a tender submitted by another tender participant. The Company's tender was rejected as a consequence of the abnormally low price of several items contained therein. Out of 7 tenders submitted by tender participants in the said tender procedure, 5 tenders were rejected by the Contracting Authority, including 4 tenders rejected on the grounds of abnormally low price. On 22 May 2017, the Management Board of the Company decided not to take further legal measures to appeal against the said decision of PKP PLK. **(Current reports 12/2017, 34/2017 and 36/2017)**

On 13 March 2017, the Company and PKP PLK entered into the design and construction contract for the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current report 48/2016 and the current report 64/2016, respectively. The contract net value: PLN 281m. The contract gross value: PLN 345.6m. The project completion date: 38 months of the commencement of works. **(Current report 17/2017)**

On 5 April 2017, the consortium of ZUE S.A. (Leader), Budimex S.A., Strabag sp. z o.o., Strabag Rail GmbH, Strabag Rail a.s. and Strabag Általános Építő Kft. entered into the contract with PKP PLK for the completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF). The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 60/2016 and 8/2017, respectively. The Contract net value including the provisional sum: PLN 560.0m (i.e. the gross amount of PLN 688.8m). The expected net remuneration attributable to the Company: PLN 233m. Completion date: 42 months of the works commencement date. **(Current report 23/2017)**

On 6 April 2017, the consortium of ZUE S.A. (Leader), Przedsiębiorstwo Inżynieryjne "IMB-Podbeskidzie" sp. z o.o. and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. entered into the contract with Zarząd Infrastruktury Komunalnej i Transportu w Krakowie for the completion of the following project: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 62/2016. The Contract net value including the provisional sum: PLN 145.5m (i.e. the gross amount of PLN 179m). The expected net remuneration attributable to the Company: PLN 49.5m. Completion date: 31 December 2019 **(Current report 24/2017)**

On 11 April 2017, the consortium of Strabag sp. z o.o. (Leader), Strabag Rail GmbH, Strabag Rail a.s, Strabag Általános Építő Kft., ZUE S.A. and Budimex S.A. entered into the contract with PKP PLK for the preparation of building and detailed designs and the completion of LOT B works as part of a "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-3: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II. The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 61/2016 and 5/2017, respectively. The Contract net value including the provisional sum: PLN 216.7m (i.e. the gross amount of PLN 266.5m). The expected net remuneration attributable to the Company: PLN 71.9m. Completion date: 43 months of the works commencement date. **(Current report 26/2017)**

On 5 June 2017, the Company and PKP PLK entered into the contract for design and construction services as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 1/2017 and 19/2017, respectively. The Contract net value: PLN 174.5m. The Contract gross value: PLN 214.7m. Completion date: 28 months of the works commencement date. **(Current report 38/2017)**

On 29 June 2017, the Company learnt about the selection by PKP PLK of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the preparation of design documentation and the completion of a "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16: "Improvement of capacity of E 20 railway line of the Warsaw – Kutno section; Stage I: Works on the railway line no. 3 of the Warsaw – the Łowicz Local Traffic Control Centre (LCS)." Tender opening took place on 5 April 2017. The tender submitted by the Company ranked third. However, after the submitted tenders had been analysed by the Contracting Authority, the tender submitted by the Company was selected the

most economically advantageous offer. Net value of the tender submitted by the Company: PLN 79.8m. Gross value of the tender submitted by the Company: PLN 98.2m. Completion date: 33 months of the contract conclusion date. **(Current report 45/2017)**

On 20 July 2017, the Company and PKP PLK signed the contract for the preparation of design documentation and completion of the "design-build" project as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.2-6 "Works on the railway line no. 1 of the Częstochowa – Zawiercie section." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 16/2017 and 29/2017, respectively. **(Current report 48/2017)**

On 28 July 2017, the Issuer received the contract signed by the cooperating companies; i.e. 1) ZUE S.A. with registered office in Cracow, 2) Budimex S.A. with registered office in Warsaw, 3) Strabag sp. z.o.o. with registered office in Pruszków (the "Employer") and Biuro Wdrożeniowo – Projektowe SABEL with registered office in Wrocław. Under the Contract, the Employer expected the Subcontractor to perform specific design and construction services in connection with the Employer's execution of the project in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section. The Contract net value was PLN 107.5m and 67% of this amount would be paid by the Company. **(Current report 49/2017)**

On 8 August 2017, the Company learnt about the judgment delivered on the same date by the National Appeal Chamber (the "Chamber"). The Chamber ordered that the selection by the City of Katowice and Tramwaje Śląskie S.A. (the "Contracting Authority") of the most economically advantageous tender submitted in the tender procedure for the construction of transport hub – the Zawodzie hub as part of the following project: "Katowice System of Integrated Transport Hubs" (the "Tender Procedure") be cancelled and the two contractors which ranked first and second, respectively, be excluded. The tenders were opened on 24 May 2017. The tender submitted by the consortium of ZUE S.A. (Leader) and UNIBEP S.A. (hereinafter jointly referred to as the "Consortium") ranked third. The most economically advantageous tender was selected on 10 July 2017. The Consortium appealed against the decision as a result of which the abovementioned judgment was entered by the Chamber. Net value of the tender submitted by the Consortium in the Tender Procedure was PLN 54.0m and the expected net remuneration attributable to the Company was approx. PLN 27m. Gross value of the tender submitted by the Consortium was PLN 66.4m. The project completion date according to the tender was 22 months. The Consortium's tender was selected as the most economically advantageous offer on 29 September 2017. **(Current reports 51/2017, 62/2017)**

On 21 August 2017, the Company and PKP PLK entered into the contract for the preparation of design documentation and the completion of the "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16: "Improvement of capacity of E 20 railway line of the Warsaw – Kutno section; Stage I: Works on the railway line no. 3 of the Warsaw – the Łowicz Local Traffic Control Centre (LCS)." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 45/2017. The Contract net value was PLN 79.8m. The Contract gross value was PLN 98.2m. The project completion date according to the tender was 33 months of the works commencement date. **(Current report 56/2017)**

On 26 September 2017, the Company learnt about the Company's submission of the most economically advantageous tender in the tender procedure for the completion of design and construction services as part of the project named: "Construction of the Czarńca - Włoszczowa Płn. railway line no. 582." Net value of the tender submitted by the Company was PLN 40.2m. Gross value of the tender submitted by the Company was PLN 49.4m. The project completion date was set as 16 months. **(Current report 60/2017)**

Financial agreements:

Following a review of provisions relating to the performance of construction contracts for the purposes of 2016 financial statements, a decision was made on 6 February 2017 to partially release a provision (the "Provision") for the risks associated with the settlement of the following contract: "Construction of the FRANOWO tram depot in Poznań" (the "Contract"). The Contract was performed on the basis of a contract entered into with Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu (the "Contracting Authority"). The Contract was performed by the Company as part of the consortium including Elektrobudowa S.A. of Katowice (Elektrobudowa). On 1 December 2016, a settlement was reached between the Company and Elektrobudowa (the "Parties") whereby any and all disputes relating to the Contract were resolved finally and amicably (the "Settlement"). The Company informed about the Settlement in the current report 58/2016. As part of the Settlement, the Parties agreed to cooperate in

order to resolve any disputes with the Contracting Authority and finally settle the Contract. The Issuer's decision about a partial release of the Provision (i.e. PLN 9m) was mainly influenced by the abovementioned Settlement. **(Current report 7/2017)**

On 17 February 2017, the Company and AXA TUIR S.A. of Warsaw entered into a mandate agreement. The agreement dealt with the provision of project-related bonding products up to PLN 42m for all bonds, including up to PLN 25m for bid bonds and up to PLN 20m for a single bond. The said bonding products will be provided under a revolving facility. The agreement would remain in force until 28 February 2018. **(Current report 9/2017)**

On 8 March 2017, the Company published preliminary separate and consolidated results for 2016. **(Current report 15/2017)**

On 23 March 2017, the Company and Polska Kasa Opieki S.A. of Warsaw (PEKAO) entered into the agreement for a multi-purpose revolving credit limit up to PLN 30m (the "Limit"). The Company would be able to use the Limit as a revolving credit up to the maximum amount of the Limit or as bank guarantees (up to the maximum amount of the Limit) of any type (including, in particular, bid bonds, performance bonds and defects liability bonds) provided at the Company's request to secure the contracts carried out by the Issuer. The Limit may also be used in USD and EUR. The Agreement would remain in force until 22 March 2018 **(Current report 20/2017)**

On 6 April 2017, an annex to the revolving facility agreement of 15 October 2014 with TU Europa S.A. was signed whereby the limit was raised from PLN 10m to PLN 20m.

On 10 April 2017, an annex was signed to the financing agreement concluded with BGŻ BNP Paribas S.A. on 10 December 2015. Under the said annex, the security in the form of mortgage was replaced with a deposit and the term of the bond line agreement was extended by two years until 8 December 2027.

On 24 April 2017, the Company published preliminary separate and consolidated results for the first quarter of 2017 **(Current report 27/2017)**

On 23 June 2017, the Company and mBank S.A. with registered office in Warsaw (the "Bank") signed an annex to the Cooperation Agreement. Under the said Cooperation Agreement, the Company may use the Bank's products and services to finance its day-to-day operations as part of the limit (the "Limit") provided by the Bank. On the basis of the annex, the Limit was increased from PLN 40m to PLN 50m and would be available from 28 June 2017 to 17 July 2020. In addition, the following sublimits were introduced:

- a) sublimit for bonds up to PLN 50m; and
- b) sublimit for non-revolving working credit facilities up to PLN 30m. **(Current report 43/2017)**

On 26 June 2017, the Company and mBank S.A. with registered office in Warsaw (the "Bank") signed an annex to the Master Agreement. Under the said Master Agreement, the Company may use the bonds as part of the limit (the "Limit") provided by the Bank. On the basis of the Annex, the Limit was increased from PLN 70m to PLN 150m and would be available from 28 June 2017 to 28 June 2018 **(Current report 44/2017)**

On 6 July 2017, the Company received the annexes to the revolving credit facility agreement and the bond line agreement, respectively, entered into with BGŻ BNP Paribas S.A. Following the amendments thereto, the revolving credit facility agreement was terminated. Under the annex to the bond line agreement, the limit was raised to PLN 100m. The scope of the bonds provided by the Bank as part of the Limit was extended and included bid bonds, performance bonds, defects liability bonds and advance payment bonds. **(Current report 47/2017)**

On 18 August 2017, the Company published preliminary separate and consolidated results for the first half of 2017 **(Current report 54/2017)**

On 23 August 2017, the Company and Credit Agricole Bank Polska S.A. of Wrocław (CABP). The Agreement dealt with the bond limit up to PLN 30m. The agreement would remain in effect until 22 August 2018. **(Current report 57/2017)**

Corporate events:

On 3 February 2017, the Company's Supervisory Board changed the composition of the Company's Management Board. Two members of the Management Board; i.e. Ms. Anna Mroczek and Mr. Maciej Nowak were dismissed and were subsequently appointed the Vice-Presidents of the Management Board for a common three-year term. **(Current report 6/2017)**

On 15 March 2017, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2016 of PLN 1.5m to reserve funds. **(Current report 18/2017)**

On 30 March 2017, the Company's Supervisory Board gave a favourable opinion on the Management Board's proposal whereby the entire net profit for the financial year 2016 of PLN 1.5m would be allocated reserve funds. **(Current report 21/2017)**

On 6 June 2017, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2016 to reserve funds and change the composition of the Company's Supervisory Board. **(Current report 39/2017)**

On 6 June 2017, the Company's Ordinary General Meeting resolved to dismiss Ms. Magdalena Lis, the Supervisory Board Member, and appoint Ms. Barbara Nowak the Supervisory Board Vice-Chairperson for the current term. **(Current report 41/2017)**

Other events:

On 4 January 2017, the Company learnt about the lawsuit of 30 December 2016 (the "Lawsuit") filed against PKP Polskie Linie Kolejowe S.A. (PKP PLK) by an agent of the consortium of OHL ŽS, a.s. (Leader), Swietelsky Baugesellschaft m.b.H and ZUE S.A. performing the following construction contract: Design and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III." The litigation value (the "Amount") was PLN 39.3m. The Company's total share in the Amount was approx. PLN 15.7m. **(Current report 2/2017)**

Following the acceptance on 2 March 2017 by Wytwórnia Podkładów Strunobetonowych S.A. of an order worth PLN 27m for the supply of building materials to the Issuer's subsidiary; i.e. Railway gft, the total value of agreements entered into in the 12 months between Railway gft and Wytwórnia Podkładów Strunobetonowych S.A. amounted to PLN 34m. **(Current report 13/2017)**

Following the acceptance on 6 March 2017 by Track Tec S.A. of an order worth PLN 13.4m for the supply of building materials to the Company, the total value of agreements entered into in the 12 months between the Group companies and Track Tec S.A. amounted to approx. PLN 21.7m. **(Current report 14/2017)**

Following the acceptance on 10 April 2017 by Railway gft of the Company's order for the supply of building materials, the total value of agreements entered into since 15 December 2016 between the Company and Railway gft amounted to PLN 21.3m. **(Current report 25/2017)**

On 5 May 2017, Railway gft, a subsidiary, the Company (the "Assignee") and the Polish manufacturer of power cables (the "Counterparty") signed the agreement for the assignment of a master agreement whose subject matter was the sale and supply of various types of power cables (the "Agreement"). On the basis of the Agreement, the buyer was changed; i.e. Railway gft was replaced with the Issuer and the Issuer acquired any and all rights and obligations of the buyer. The said change was approved of by the Counterparty. **(Current report 28/2017)**

Following the acceptance by the manufacturer of railway materials (the "Counterparty") of an order for the supply of building materials to Railway gft, a subsidiary, the total net value of orders/agreements concluded in the last year between the companies comprising ZUE Capital Group and the companies comprising the capital group of the Counterparty amounted as at 11 May 2017 to approx. PLN 20.2m. **(Current report 32/2017)**

On 5 June 2017, the Company and the Polish manufacturer of prestressed concrete sleepers signed the master agreement for the supply of building materials to the Company of the total estimated net value of approx. PLN 84m. The agreement set out the rules governing the sale of building materials to the Company. The agreement would be performed on the basis of individual orders made by the Company. The agreement would be performed by the end of 2019. **(Current report 37/2017)**

On 8 June 2017, the Company and the manufacturer of prestressed concrete sleepers signed the master agreement for the sale of building materials to the Company of the total estimated net value of approx. PLN 109.7m. The agreement set out the rules governing the sale of building materials to the Company. The agreement would be performed on the basis of individual orders made by the Company. The agreement would be performed

on the basis of individual orders made by the Company. The agreement would be performed by the end of 2019. **(Current report 42/2017)**

Following the conclusion on 11 August 2017 by the consortium including the Company of a contract for additional works in connection with the following project: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow," the total net value of the contracts entered into with Zarząd Infrastruktury Komunalnej i Transportu w Krakowie since 6 April 2017 amounted to PLN 26.3m. **(Current report 52/2017)**

On 17 August 2017, the Company and Zakład Automatyki KOMBUD S.A. of Radom (the "Subcontractor") signed the contract for the provision by the Subcontractor of certain design and construction services to the Company in connection with the Company's performance of the contract in the Łódź Kaliska – Zduńska Wola area. The contract net value was PLN 37.8 and the project completion date was defined as April 2020 **(Current report 53/2017)**

On 15 September 2017, the Company learnt about a ruling (the "Ruling") delivered on the same date by the District Court for the Capital City of Warsaw in Warsaw Commercial Division (the "Court") in the case brought by the Company against PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw (the "Contracting Authority") in relation to the payment for additional works performed by the Issuer in connection with the following contract: "Design and construction services as part of the following *POLiS 7.1 – 69* project: Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie - Dąbrowa Górnicza Ząbkowice - Jaworzno Szczakowa section." The Court ruled that the Contracting Authority pay the Petitioner PLN 3.2m plus statutory interest from 5 December 2014 and dismissed the remaining claims. **(Current report 58/2017)**

Following the Company's conclusion on 22 September 2017 of the contract for the maintenance of street lightening and buildings' illumination equipment in Cracow with a breakdown into four regions, the total net value of the contracts entered into with ZIKiT since 12 August 2017 was PLN 21.2m. **(Current report 59/2017)**

On 29 September 2017, the Company and Kolejowe Zakłady Automatyki S.A. of Katowice (the "Subcontractor") signed the contract whereby the Subcontractor would perform specific design and construction services to the Company in connection with the Company's performance of the contract in the Wyczerpy – Chorzew Siemkowice area. The contract net value was PLN 34.3m and the contract performance date was set for June 2019. **(Current report 61/2017)**

13. Major events after the end of the reporting period

On 2 October 2017, the Company and PKP PLK entered into the contract for the preparation of design documentation and completion of construction and assembly works as part of the following project: "Works on the railway line no. 93 Trzebinia – Zebrzydowice of the Trzebinia – Oświęcim section." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 35/2017 and 50/2017, respectively. The contract net value was PLN 303.1m. The contract gross value was PLN 372.8m. The project completion date was specified as 44 months of the works commencement date. **(Current report 63/2017)**

Following the acceptance of an order for the supply of building materials to Railway gft, a subsidiary, by the supplier thereof (the "Counterparty"), the total net value of orders/contracts entered into in the past year between Railway gft and the Counterparty amounted as at 5 October 2017 to approx. PLN 82.4m. **(Current report 65/2017)**

On 9 October 2017, an order (the "Order") was signed by the Company and Budimex S.A. of Warsaw (the "Employer"). On the basis of the Order, ZUE would perform specific construction works ordered by the Employer in connection with the performance of the contract in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section by the consortium including the Employer and the Company. The Company informed about the Contract in the current report 23/2017 of 5 April 2017. The Order net value was PLN 31.1m and the completion date was set for September 2020. **(Current report 66/2017)**

On 13 October 2017, the Management Board of the Company learnt about the cancellation on 12 October 2017 by PKP PLK of the tender procedure for design and construction services in connection with the project no. 1: "Works on the Chabówka - Zakopane railway line no. 99" and the project no. 2: "Construction of railway link in

Chabówka along the Sucha Beskidzka – Chabówka railway line no. 98 and the Chabówka – Zakopane railway line no. 99.” The Company submitted the tender whose net value was PLN 330.1m. After all tenders had been analysed by the Contracting Authority, the tender submitted by the Company was selected the most economically advantageous tender and the Company informed thereof in the current report 64/2017 **(Current reports 64/2017 and 67/2017)**

Following the acceptance by Railway gft; i.e. the Issuer’s subsidiary of an order for the supply of building materials to the company comprising PKP PLK Capital Group, the total net value of orders/contracts entered into between the companies of ZUE Capital Group and the companies of PKP PLK Capital Group (except for the construction contracts referred to by the Company in current reports) since 11 April 2017 (i.e. publication date of the current report 26/2017) was approx. PLN 21m. **(Current report 68/2017)**

On 13 October 2017, the Company published preliminary separate results for the third quarter of 2017. **(Current report 69/2017)**

On 17 October 2017, the Company and Wizbud sp. z o.o. (the “Subcontractor”) signed the contract whereby the Subcontractor would perform construction works on the Wyczerpy – Chorzew Siemkowice section. The contract net value amounted to PLN 23.5m. The contract performance date was set for June 2019 **(Current report 70/2017)**

On 25 October 2017, the Company and PKP PLK signed the contract for design services and construction works in connection with the following project: “Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section” executed as part of Eastern Poland Operating Programme. The Company informed about the submission and the selection of the Company’s tender as the most economically advantageous offer in the current reports 22/2017 and 46/2017, respectively. The contract net value was PLN 378.8m. The contract gross value was PLN 465.9m. The project completion date: 39 months of the works commencement date. **(Current report 71/2017)**

On 18 October 2017, an annex to the mandate agreement for the provision of project-related bonding products with Gothaer TU S.A. of 25 November 2015 was signed whereby the limit was raised from PLN 10m to PLN 15m.

On 27 October 2017, an annex to the financing agreement with BGŻ BNP Paribas S.A. of 10 December 2015 was signed whereby the limit was raised from PLN 100m to PLN 170m to be used for the revolving credit facility up to PLN 20m and the bond line up to the maximum amount of the limit. **(Current report 72/2017)**

On 17 October 2017, the Company received a copy of the order signed by the consortium including FIMA POLSKA sp. z o.o. of Warsaw (the “Consortium Leader”) and UAB FIMA LT of Vilnius (jointly referred to as the “Subcontractor”) whereby the Subcontractor would carry out the construction works on the Trzebinia-Oświęcim section (the “Contract”). The Order net value was PLN 29.5m. The Order would be completed on the same date as the Contract. **(Current report 73/2017)**

On 31 October 2017, an annex to the multi-purpose revolving credit limit agreement of 23 March 2017 with Bank Polska Kasa Opieki S.A. of Warsaw was signed whereby the limit was raised from PLN 30m to PLN 100m to be used for the revolving credit up to the maximum amount of PLN 20m and the bank guarantees up to the maximum amount of the limit. **(Current report 74/2017)**

14. Bonds, guarantees and credit limits

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

The value of unused bond lines at the end of the third quarter of 2017 is PLN 350,227 thousand for the Group and PLN 349,440 thousand for ZUE.

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.

According to credit agreements as at 30 September 2017, the amount of unused credit limits is PLN 37,387 thousand for the Group and PLN 35,000 thousand for ZUE.

After the end of the reporting period, the Company signed two annexes to change multi-purpose limits. On 27 October 2017, the Company signed the Annex no. 3 to the Financing Agreement with BGŻ BNP PARIBAS Spółka Akcyjna whereby the limit was raised to PLN 170,000 thousand (current report 72/2017). On 31 October 2017, the Company signed the Annex no. 1 to the Multi-Purpose Credit Limit Agreement with Bank Polska Kasa Opieki Spółka Akcyjna whereby the credit limit was raised to PLN 100,000 thousand (current report 74/2017).

Since the limits may be used for bank guarantees or revolving credit facility, the limits will be recognized in the list of guarantee limits.

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

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

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

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

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

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

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

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

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

- **Higher fees charged by subcontractors**

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

- **Unstable EUR/PLN exchange rate**

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

- **Outcome of court proceedings**

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

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

No unusual factors or events occurred in the reporting period.

17. Risks believed by the Group to have an influence on its future results

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

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

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

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

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

Another risk has occurred in the past years and is related to a loss of financial liquidity by other entities operating in the same sector. In addition, changes in VAT launched at the beginning of 2017 including, in particular, reverse charges for several dozen of construction services may result in poorer financial liquidity of construction companies.

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

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

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

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

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

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

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

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

- **Risk related to logistics**

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

- **Risk related to bankruptcy of counterparties**

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

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

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

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

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

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

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

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

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

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

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

- **Interest rate risk**

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

- **Risk related to weather conditions**

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

- **Risk related to greater employments costs**

Given the changeable economic conditions, the Company's aspirations for constant development and raising the quality of the Company's services as well as insufficient number of employees practicing the professions which require proper licences, skills and experience, the costs of employment may grow and influence ZUE's financial results.

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

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

Construction and assembly operations are marked by the seasonality of production and sales. The main factors with a bearing on revenue and profit in a financial year include weather conditions, schedule of payments and the dates of putting contracts out for tender and awarding contracts.

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

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

19. Strategic objectives

The Group's strategic objectives include:

- Maintenance of the position of the Group as one of the leaders of the urban transport infrastructure construction market;
- Strengthening of its position on the rail transport infrastructure construction market;
- Development of power construction services relating to the upgrade of LV, MV and HV power lines;
- Strengthening of its position on the transport systems design market; and
- Development of activities concerning the sale and manufacture of rail materials.

The main strategic objective in 2017-2020 is to take a maximum advantage of the current EU perspective.

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

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

Prospects of the markets the Issuer operates in:

Rail infrastructure market

The rail infrastructure market is the main market the Group operates in and generates the biggest portion of the Group's revenue. Most of the contracts won and performed by the Group companies are railway contracts. ZUE continues to win new construction contracts. Since the plans set out in the National Railway Programme (NRP) are extensive, the rail infrastructure market is believed by the Group to enjoy broad prospects in the forthcoming years.

Urban infrastructure market

After a downturn on the urban infrastructure market observed in prior years, 2017 witnesses a recovery in announcing tenders and awarding contracts by Polish cities. Individual cities present their long-term plans

concerning the extension of tram networks which include significant projects. The Group companies win and perform the contracts on the urban infrastructure market as well as search for new projects. ZUE believes that tenders for major projects in this market will be announced in 2018.

Power infrastructure market

In 2016–2020, Polskie Sieci Elektroenergetyczne S.A. (PSE) intend to incur capital expenditures on infrastructure up to PLN 7bn. In the period 2021-2025, the capital expenditures are expected to amount to PLN 6.3bn. Thus, PSE's total capital expenditures in the period 2016-2025 will amount to approx. PLN 13.3bn. The power infrastructure market seems perspective but a small number of projects makes it similar to the railway market from two years ago. The market is monitored by the Group in terms of its participation in tender procedures.

Corporate information

20. Governing bodies

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

Management Board:

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

Supervisory Board:

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

On 3 February 2017, the Company's Supervisory Board changed the composition of the Company's Management Board. Two members of the Management Board; i.e. Ms. Anna Mroczek and Mr. Maciej Nowak were dismissed and were subsequently appointed the Vice-Presidents of the Management Board for a common three-year term. (Current report 6/2017).

On 6 June 2017, the Ordinary General Meeting of the Company resolved to dismiss Ms. Magdalena Lis from the position of Member of the Company's Supervisory Board as of 6 June 2017 and appoint Ms. Barbara Nowak the Vice-Chairperson of the Company's Supervisory Board. Apart from this, the composition of the Supervisory Board did not change. (Current report 39/2017).

After the end of the reporting period; i.e. on 18 October 2017, the Audit Committee was established by the Company's Supervisory Board.

Audit Committee:

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

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

21. Share capital structure

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

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

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

23. Shareholding structure

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

Shareholder	At the date of preparation of this quarterly report; i.e. 7 November 2017		At the date of publication of previous quarterly report; i.e. 26 April 2017	
	Number of shares/votes	% of the share capital/total number of votes	Number of shares/votes	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
METLIFE OFE *	1,400,000**	6.08	1,400,000**	6.08
PKO Bankowy OFE	1,500,000***	6.51	1,500,000***	6.51
Other	5,729,763****	24.88	5,729,763****	24.88
Total	23,030,083	100	23,030,083	100

* Previously Amplico OFE.

** 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.

*** 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.

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

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

Shareholder	Position	Number of shares/votes at 7 November 2017	% of the share capital/total number of votes	Changes in shareholding since the preparation of the last quarterly report; i.e. 26 April 2017
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 quarterly report or this report.

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

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

26. Issue and redemption of debt and equity securities

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

27. Dividend

On 15 March 2017, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2016 of PLN 1.5m to reserve funds. The Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations.

On 6 June 2017, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2016 according to the abovementioned recommendations.

Financial information

28. Discussion of financial results

Discussion of major items of the statement of profit or loss

The Group's revenue in the period 1 January – 30 September 2017 was PLN 233,459 thousand and increased by 6% when compared with the analogous period of 2016 and by 116% (PLN 125,616 thousand) when compared with the end of the first half of 2017. The Company's revenue in the first three quarters of 2017 increased by 7% over the figure reported in the analogous period of 2016 and amounted to PLN 212,280 thousand and by 112% (PLN 112,185 thousand) over the revenue disclosed at the end of H1 2017.

The increase in revenue reported in the third quarter of 2017 was mainly influenced by the performance of new contracts won under the present EU perspective. Previously, the said contracts were in early stages of organisation and did not generate significant revenues. The Group begins to perform other contracts, including the four “design-build” projects won between July and October 2017 with the total net value of PLN 1.1bn.

In the third quarter of 2017, the Group began to take full advantage of previously maintained equipment and human resources. Accordingly, it did not have to incur significant costs to carry out recruitment processes which were the main factors contributing to losses reported in the first half of 2017. The Board’s decision to maintain the staffing level provided the Company with its own employees required to perform the contracts. Given a gradual extension of the order book, the Company continues to recruit employees and buy machines.

The consolidated gross profit (loss) increased by PLN 9,573 thousand; i.e. from PLN (-) 5,819 thousand at the end of IH 2017 to PLN 3,754 thousand at the end of 3Q 2017. EBIT improved by PLN 3,878 thousand in the period under analysis and net profit improved by PLN 2,834 thousand when compared with 1H 2017 result.

The separate gross profit (loss) increased by PLN 8,872 thousand; i.e. from PLN (-) 6,101 thousand at the end of IH 2017 to PLN 2,771 thousand at the end of 3Q 2017. EBIT improved by PLN 3,960 thousand in the period under analysis and net profit improved by PLN 3,024 thousand.

The table below presents the results reported by the Group and the Company in the reporting period:

PLN '000	9 months ended 30-09-2017		3 months ended 30-09-2017	
	Group	ZUE	Group	ZUE
Gross profit (loss)	3,754	2,771	9,573	8,872
EBIT	-11,647	-9,872	3,878	3,960
EBITDA*	-4,350	-2,638	6,393	6,473
Pre-tax profit (loss)	-13,992	-11,748	3,506	3,690
Net profit (loss)	-12,144	-9,851	2,834	3,024

* Operating profit + depreciation / amortisation.

The Group’s general and administrative expenses between 1 January and 30 September 2017 amounted to PLN 15,499 thousand – up by 3% when compared with the figure reported in the comparative period of 2016. The Company’s general and administrative expenses in the first three quarters of 2017 stood at PLN 12,680 thousand and rose by 3% over the figure disclosed in the analogous period of 2016. General and administrative expenses include the costs of public procurement procedures, including bid bonds.

In the reporting period, the Group’s other operating income was PLN 3,063 thousand – down by 23% compared to the analogous period of 2016. Following the change in estimates, investment property impairment loss of PLN 1,000 thousand was released by the Group.

Other operating expenses amounted to PLN 2,965 thousand and increased by 107% over the amount disclosed in the analogous period. Following the assessment of risks relating to trade receivables, write-downs of PLN 1,289 thousand were recognised by the Group in the reporting period including the write-down recognised in connection with an invoice for additional works issued by PKP PLK.

In the reporting period, the Group’s financial income stood at PLN 802 thousand and decreased by 51% compared to the analogous period of 2016. The decrease is a result of using more money to conduct operating activities (e.g. to perform newly won contracts) and, consequently, investing less money in deposits and other financial instruments.

The Group’s financial expenses amounted to PLN 3,147 thousand and increased by 237% over the figure reported in the analogous period of 2016. The increase in financial expenses was mainly influenced by a discount of long-term deposits paid in the reporting period.

Discussion of major items of the statement of financial position

At the end of the reporting period, the Group’s total assets and liabilities stood at PLN 389,995 thousand and increased by 7% over the analogous figure reported at the end of 2016.

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

- 1) Assets:

- a) Increase in property, plant and equipment by PLN 8,479 thousand. The Group invests in non-current assets, especially machinery and vehicles used to perform construction contracts. The investments are financed under lease contracts and by own resources (note no. 47);
 - b) Increase in inventories gathered to perform the existing and new contracts by PLN 30,547 thousand. Strategic materials such as aggregate, sleepers, rails or railway switches are bought and long-term master agreements for the purchase of the abovementioned materials are signed to reduce the risk of price increase in times of limited supply caused by the accumulation of railway works. The estimate security for the supply of strategic materials required to perform the contracts won by the Group: rails – 100%, railway switches – 70%, breakstone – 70%. The supply of materials required to perform the contracts which have not yet been awarded is also secured by Group under the abovementioned master agreements;
 - c) Increase in trade and other receivables by PLN 58,367 thousand as a result of progress in the performance of the contracts won under the present EU perspective;
 - d) Decrease in other financial assets by PLN 54,935 thousand following the sale of corporate bonds;
 - e) Decrease in cash and cash equivalents by PLN 19,616 thousand reflecting, *inter alia*, the purchase of materials and ongoing contract performance.
- 2) Liabilities:
- a) Increase in long-term loans and bank credits and other financing sources by PLN 4,766 thousand reflecting investments in non-current assets financed under lease contracts;
 - b) Increase in trade and other payables by PLN 36,778 thousand resulting, *inter alia*, from prepayments made by PKP PLK under the agreements which provide the Group with an ability to obtain advance payments to perform construction contracts.

Discussion of items of the statement of cash flows

PLN '000	Group		ZUE	
	Period ended 30-09-2017	Period ended 30-09-2016	Period ended 30-09-2017	Period ended 30-09-2016
Cash flows from operating activities	-65,839	-48,863	-65,270	-47,604
Cash flows from investing activities	39,804	-6,151	39,652	-6,181
Cash flows from financing activities	6,827	-8,646	6,935	-9,478
Total net cash flows	-19,208	-63,660	-18,683	-63,263
Cash at the beginning of the period	62,717	172,334	61,207	169,795
Cash at the end of the period	43,101	108,918	42,119	106,774

PLN 65,839 thousand was used to conduct operating activities a result of the performance of new contracts won in 2017.

Positive cash flows from investing activities of PLN 39,804 thousand were mainly influenced by the repurchase of the Company's corporate bonds held by the Company as an investment.

Cash flows from financing activities of PLN 6,827 thousand were mainly influenced by the leaseback used to finance non-current assets.

The Group's cash decreased by 19,616 thousand when compared with the end of 2016 and increased by PLN 17,434 thousand compared to the end of June 2017.

The Group has for many years maintained high liquidity levels despite significant investments in inventories and unbilled production. It is extremely important for the Group, especially in times of signalled deterioration in certain

construction companies' ability to settle their liabilities. The Company's stable financial condition is also confirmed by the banks which cooperate with ZUE.

Segments

The total revenue generated by the Group is PLN 233,459 thousand. The biggest portion has been earned from construction activities conducted by ZUE.

Sales activities conducted at the Group by Railway gft reported a net loss of PLN 1,454 thousand (gross profit of PLN 722 thousand) in the three quarters of 2017. When compared with 1H 2017, Railway gft reported the increase by PLN 444 thousand in gross profit as a result of greater number of orders for building materials.

Design activities conducted by BPK Poznań in 3Q 2017 reported a gross profit of PLN 550 thousand and a net loss of PLN 598 thousand. Design activities complement construction activities.

29. Statement by the Management Board of ZUE on forecast financial results

The Company did not publish any forecast 2017 financial results.

30. Revenue

(PLN '000)

	Period ended 30-09-2017	Period ended 30-09-2016
Revenue from the sale of goods and raw materials	12,018	39,905
Revenue from the rendering of services	8,954	3,788
Revenue from construction contracts	212,487	176,921
Total	233,459	220,614

The Group's revenue in the period from 1 January 2017 - 30 September 2017 amounted to PLN 233,459 thousand – up by 6% when compared with revenue in the analogous period of 2016.

The increase in revenue reported in the third quarter of 2017 was mainly influenced by the performance of new contracts won under the present EU perspective. Previously, the said contracts were in early stages of organisation and did not generate significant revenues because of early stages of organisation.

31. Other operating income

(PLN '000)

	Period ended 30-09-2017	Period ended 30-09-2016
Gain on disposal of assets:	157	134
Gain on disposal of non-current assets	157	134
Other operating income:	2,906	3,828
Re-invoicing of bonds and policies	767	206
Received damages	208	297
Release of write-downs of receivables	359	1,116
Refund of costs of court proceedings	78	40
Release of provisions for court cases	0	1,500
Release of allowances for inventories	31	341
Release of allowances for investment property	1,000	0

Other	463	328
Total	3,063	3,962

In the reporting period, the Group released investment property impairment loss of PLN 1,000 thousand due to a change in estimates.

32. Other operating expenses

(PLN '000)

	Period ended 30-09-2017	Period ended 30-09-2016
Loss on disposal of assets:	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses:	2,965	1,432
Donations	14	58
Paid damages	598	54
Costs of litigations	126	105
Costs of performance bonds	765	206
Revaluation of inventories	0	18
Write-downs of receivables	1,289	753
Remission of debt	0	3
Other	173	235
Total	2,965	1,432

In the reporting period, the Group recognised the write-downs of PLN 1,289 thousand including the write-down recognised in connection with an invoice for additional works issued by PKP PLK.

33. Financial income

(PLN '000)

	Period ended 30-09-2017	Period ended 30-09-2016
Interest income:	442	1,212
Interest on bank deposits	145	1,159
Interest on loans	6	1
Interest on receivables	291	52
Foreign exchange gains	0	275
Gain on disposal of investment	0	0
Dividend income	0	0
Other financial income:	360	164
Discount of long-term items	47	101
Realisation of financial instruments	309	0
Guarantees	0	0
Other	4	63
Total	802	1,651

The decrease in financial income is a result of using more money to conduct operating activities (e.g. to perform newly won contracts) and, consequently, investing less money in deposits and other financial instruments.

34. Financial expenses

(PLN '000)

	Period ended 30-09-2017	Period ended 30-09-2016
Interest expenses:	844	469
Interest on bank overdrafts and credits	207	142
Interest on finance lease liabilities	405	314
Interest on loan	5	5
Interest on trade and other payables	227	8
Other financial expenses:	2,303	465
Foreign exchange losses	664	0
Discount of long-term receivables	0	0
Discount of long-term items	1,292	329
Realisation of financial instruments	0	0
Allowance for investments in other units	287	0
Other	60	136
Total	3,147	934

The increase in financial expenses was mainly influenced by a discount of long-term money deposits paid in the reporting period.

35. Corporate income tax

Corporate income tax recognised in the statement of comprehensive income

(PLN '000)

	Period ended 30-09-2017	Period ended 30-09-2016
Current income tax	-20	1,102
Deferred tax	-1,828	-1,865
Total tax expense/income	-1,848	-763

The tax currently payable is calculated pursuant to applicable tax laws. According to these laws, taxable profit (loss) differs from accounting net profit (loss) because it excludes items of income or expense that are not taxable or deductible and items of income or expense that are never taxable. The Group's tax liability is calculated using tax rates applicable during the fiscal year in question.

The Group is subject to general regulations governing corporate income tax. The Group's entities neither form a tax capital group nor operate in a Special Economic Zone. Tax year and financial year coincide with a calendar year

Current income tax

(PLN '000)

	Period ended 30-09-2017	Period ended 30-09-2016
Gross profit (loss)	-13,992	-6,869
Difference between gross profit (loss) and income tax base:	1,260	-21,457
- differences between gross profit and taxable income resulting from costs that are not tax-deductible under tax regulations and revenue not classified as revenue under tax regulations and additional costs and revenue	1,260	-21,457
- other differences (including loss brought forward)	0	0
Income/loss	-12,732	-28,319
Income tax base	0	0
Income tax at the applicable rate of 19%	0	0
Income tax paid/(refunded) on profit earned abroad	-20	978
Tax increases, waivers, exemptions, deductions and reductions	0	0
Adjustment of income tax from previous years	0	124
Current income tax	-20	1,102

Current tax assets and liabilities

(PLN '000)

	As at 30-09-2017	As at 31-12-2016
Current tax assets		
Tax refundable	0	64
Total	0	64
Current tax liabilities		
Tax payable	0	0
Total	0	0

Deferred tax balance

	(PLN '000)	
	As at 30-09-2017	As at 30-09-2016
Deferred tax balance at the beginning of the period	8,683	8,477
Merger opening balance	0	0
Temporary differences relating to deferred tax assets:	26,163	22,249
Provisions for expenses and accruals	10,706	13,666
Discount of receivables	502	253
Liabilities under leases	153	367
Other, including allowances for receivables	3,806	3,411
Tax work in progress	10,996	4,552
Temporary differences relating to deferred tax liabilities:	25,502	16,864
Measurement of long-term contracts	15,733	6,868
Property, plant and equipment and intangible assets	9,125	9,347
Discount of payables	384	388
Other	260	261
Unused tax losses and other tax credits to be settled in future:	9,862	4,954
Tax losses	9,862	4,954
Tax credits	0	0
Other	0	0
Total temporary differences relating to deferred tax assets:	36,025	27,203
Total temporary differences relating to deferred tax liabilities:	25,502	16,864
Deferred tax balance at the end of the period	10,523	10,339
Change in deferred tax, including:	1,840	1,862
- recognised in income	1,828	1,865
- recognised in equity	12	-3

Deferred tax recognised in equity is a result of calculating tax on liabilities under employee benefits presented in comprehensive income.

Deferred tax assets and liabilities

	(PLN '000)			
	01-01-2017	Created	Used	30-09-2017
Deferred tax assets	22,907	12,919	0	35,826
Deferred tax liability	14,224	11,079	0	25,303
Balance of assets and liabilities	8,683			10,523

Deferred tax is presented by the Group companies according to its netted balance (IAS 12).

36. Property, plant and equipment

(PLN '000)

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 2017	0	26,124	47,520	51,151	2,151	126,946	518	2,967	130,431
Additions		0	38	158	16,633	122	16,951	2,623	0	19,574
Transfer to non-current assets		0	0	0	0	0	0	1,165	2,967	4,132
Liquidations		0	0	956	702	20	1,678	0	0	1,678
Balance at	30 September 2017	0	26,162	46,722	67,082	2,253	142,219	1,976	0	144,195

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 2017	0	6,817	19,126	19,343	1,729	47,015	0	0	47,015
Elimination on disposal of assets		0	0	707	612	17	1,336	0	0	1,336
Depreciation expense		0	713	2,331	3,465	112	6,621	0	0	6,621
Balance at	30 September 2017	0	7,530	20,750	22,196	1,824	52,300	0	0	52,300

Carrying amount		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at	1 January 2017	0	19,307	28,394	31,808	422	79,931	518	2,967	83,416

Balance at	30 September 2017	0	18,632	25,972	44,886	429	89,919	1,976	0	91,895
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The Group did not recognise any impairment losses in the reporting period.

37. Investment property

(PLN '000)

Gross value		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	1 January 2017	126	4,251	2,371	0	0	0	6,748
Additions		0	0	0	0	0	0	0
Impairment		0	0	-1,000	0	0	0	-1,000
Liquidations		0	0	0	0	0	0	0
Balance at	30 September 2017	126	4,251	3,371	0	0	0	7,748

Depreciation		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	1 January 2017	0	1,324	1,707	0	0	0	3,031
Elimination on disposal of assets		0	0	0	0	0	0	0
Depreciation expense		0	125	128	0	0	0	253
Balance at	30 September 2017	0	1,449	1,835	0	0	0	3,284

Carrying amount

Balance at	1 January 2017	126	2,927	664	0	0	0	3,717
Balance at	30 September 2017	126	2,802	1,536	0	0	0	4,464

As at 30 September 2017, investment property includes the real property in Kościelisko (plots no. 2001 and 2491). The investment property includes land with buildings erected thereon and leasehold estate.

In the reporting period, the Group released the impairment loss of PLN 1,000 thousand due to a change in estimates. The total value of investment property impairment loss is PLN 2,970 thousand.

38. Goodwill

The goodwill of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A is a result of the acquisition of 85% of PRK shares and the control gained in 2010. The acquisition of PRK was settled on the basis of the data contained in the separate financial statements of PRK as at 31 December 2009 and was recognised for the first time in the Financial Statements of the Capital Group in 2010.

The goodwill of BPK Poznań is a result of the purchase of 830 shares in BPK Poznań and the control gained on 2012.

The acquisition of BPK Poznań was settled on the basis of the data contained in the separate financial statements of BPK Poznań as at 31 March 2012 and was recognised for the first time in the Financial Statements of the Capital Group in 2012.

	(PLN '000)	
	As at	As at
At cost	30-09-2017	31-12-2016
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

At the end of the reporting period, there was no need to recognise any impairment of goodwill of PRK. A test for the impairment of goodwill will be carried out at the end of the year.

39. Other financial assets

	(PLN '000)			
	Current		Non-current	
	As at	As at	As at	As at
	30-09-2017	31-12-2016	30-09-2017	31-12-2016
Financial debt instruments	0	54,935	0	0
Other	0	0	0	0
Total	0	54,935	0	0

The decrease by PLN 54,935 thousand results from the sale of corporate bonds of another entity.

40. Inventories

	(PLN '000)	
	As at	As at
	30-09-2017	31-12-2016
Materials	40,048	10,330
Work in progress	1,586	759
Finished goods	200	198
Total	41,834	11,287

The increase in inventories by PLN 30,547 thousand is a result of gathering inventories to perform the existing and new contracts. Strategic materials such as aggregate, sleepers, rails or railway switches are bought and long-term master agreements for the purchase of the abovementioned materials are signed to reduce the risk of price increase in times of limited supply caused by the accumulation of railway works.

41. Trade and other receivables

	As at 30-09-2017	(PLN '000) As at 31-12-2016
Trade receivables	63,459	70,476
Write-downs of trade receivables	-14,083	-15,229
Receivables from the state budget other than corporate income tax	6,097	6,332
Receivables under contracts (measurement)	82,515	22,211
Advance payments	2,492	2,563
Other receivables	4,496	256
Total trade and other receivables	144,976	86,609

The increase in receivables under contracts was mainly influenced by the progress in the performance of the new contracts won under the present EU perspective.

The increase in other receivables is a result the bank's security relating to the financing agreement of PLN 4,000 thousand.

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

	(PLN '000) As at 30-09-2017
Counterparty A	19,688
	19,688

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to high creditworthiness of the abovementioned counterparties assessed, *inter alia*, by analysing their financial standing and the fact that they meet additional requirements for settling EU funds. Accordingly, the Management Board of the Company believe there is no need to create additional allowances.

42. Loans and bank credits and other sources of finance

	(PLN '000)	
	As at 30-09-2017	As at 31-12-2016
Long-term	13,658	8,892
Bank credits	0	0
Loans received	0	0
Finance lease liabilities	13,658	8,892
Short-term	17,146	14,194
Bank credits	8,514	8,153
Loans received	248	243
Finance lease liabilities	8,384	5,798
Total	30,804	23,086

In the second quarter of 2017, the Company entered into a lease contract for wagons (for ballast cleaning) of PLN 14,600 thousand. In the third quarter of 2017, the Company entered into a lease contract for cars of PLN 447 thousand.

43. Provisions

Change in provisions

Provisions	(PLN '000)						Item
	01-01-2017	Created	Used	Released	Reclassified	30-09-2017	
Long-term provisions:	9,509	1,141	83	61	2,323	8,183	
Provisions for employee benefits	1,864	77	0	2	0	1,939	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,645	1,064	83	59	2,323	6,244	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	17,056	14,239	9,974	8,004	-2,323	15,640	
Provisions for employee benefits	12,506	10,104	9,496	1,388	0	11,726	Liabilities under employee benefits (short-term)
Provisions for warranty claims	3,233	75	381	2,980	-2,323	2,270	Short-term provisions
Provision for loss on contracts	46	4,005	0	3,607	-1,007	1,451	Short-term provisions
Other provisions	1,271	55	97	29	1,007	193	Short-term

	provisions					
Total provisions:	26,565	15,380	10,057	8,065	0	23,823

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, overtime work as well as liabilities under salaries and social security premiums. The provisions for employee benefits decreased in the reporting period mainly as a result of payment of contract bonuses of prior years.

A provision for loss on contracts is created if the budgeted expenses are higher than the total revenue under a contract. Provisions for loss on contracts increased following the update of contract budgets.

44. Retentions on construction contracts

	(PLN '000)	
	As at	As at
	30-09-2017	31-12-2016
Retained by customers – to be repaid after 12 months	11,799	7,334
Retained by customers – to be repaid within 12 months	259	2,177
Total retentions on construction contracts retained by customers	12,058	9,511
Retained for suppliers – to be repaid after 12 months	5,856	6,792
Retained for suppliers – to be repaid within 12 months	6,385	9,185
Total retentions on construction contracts retained for suppliers	12,241	15,977

Construction contracts and work for hire agreements signed by the Group contain an obligation to provide performance and defects liability bonds in the form of a deposit or a bond provided by banks or insurance companies. Contracting authorities expect the guarantee periods to be longer and longer and banks create additional security in the form of deposits to secure the bond expiring after 37 months.

45. Trade and other payables

	(PLN '000)	
	As at	As at
	30-09-2017	31-12-2016
Trade payables	41,551	58,089
Liabilities to the state budget other than corporate income tax	2,039	1,082
Accruals	32,906	21,231
Liabilities under contracts (measurement)	623	1,586
Other payables	144	106
Advance payments	41,609	0
Total trade and other payables	118,872	82,094

Accruals include, in particular, provisions for the expenses associated with subcontractors and provisions for contract settlement risks.

Advance payments include prepayments received by the Group under contracts entered into with PKP PLK. Under the said contracts, advance payments were made to enable the performance of construction contracts.

46. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the nine months ended 30 September 2017 or the nine months ended 30 September 2016.

47. Investments in non-current assets

The total capital expenditure incurred by the Group in the reporting period amounted to PLN 18,918 thousand.

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

(PLN '000)

Investments in non-current assets				
Item:	Own funds	Leases	Credits	Total
Intangible assets, including:	11	0	0	11
- leasehold land	0	0	0	0
Property, plant and equipment, including:	1,842	15,108	0	16,950
- buildings and structures	38	0	0	38
- plant and equipment	158	0	0	158
- vehicles	1,524	15,108	0	16,632
- other	122	0	0	122
Non-current assets under construction	1,934	0	0	1,934
Intangible assets under construction	19	0		19
Investment property	0	0	0	0
Equity investments	4	0	0	4
Total domestic investments	3,810	15,108	0	18,918

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

- Purchase of 10 wagons (for ballast cleaning) worth PLN 14,600 thousand (lease).
- Complete overhauls of machines and vehicles in the total amount of PLN 375 thousand.
- Purchase of cars for PLN 925 thousand (including lease of PLN 447 thousand).
- Purchase of railroad crane for PLN 369 thousand.
- Purchase of two mail cars for PLN 247 thousand.
- Expenditure on PV 15RPR pile driver of PLN 1,934 thousand.

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

The amount recognized in the statement of cash flows is PLN 16,114 thousand. The difference results, *inter alia*, from actual payments made after the end of the reporting period and leaseback.

In the second quarter of 2017, the Group entered into a lease contract for wagons (for ballast cleaning) of PLN 14,600 thousand. In the third quarter of 2017, the Group entered into a lease contract for cars of PLN 447 thousand. Initially, the transactions were financed by own resources.

Certain interim financial statements may reveal changes in "Non-current assets under construction." The changes result mainly from admitting a non-current asset as complete and fit for use. At the end of the reporting period, non-current assets under construction include PV 15 RPR pile driver with an expected completion date scheduled for November 2017.

48. Segment reporting

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

These operating segments jointly meet the following criteria:

- 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.

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

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

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 for the three quarters of 2017:

(PLN '000)

	Construction	Sales	Design	Exclusions	Total
Revenue	212,280	40,327	10,369	-29,517	233,459
including:					
Revenue from external customers	211,954	13,088	8,697	-280	233,459
Inter-segment revenues	326	27,239	1,672	-29,237	0
Gross profit	2,771	722	550	-289	3,754
Financial income / expenses	-1,876	-469	0	0	-2,345
Interest received	141	0	1	0	142
Interest paid	-404	-204	-6	0	-614
Pre-tax profit	-11,748	-1,414	-533	-297	-13,992
Corporate income tax	-1,897	40	65	-56	-1,848
Net profit	-9,851	-1,454	-598	-241	-12,144
Depreciation and amortisation	7,234	22	65	-24	7,297
Property, plant and equipment	88,860	5	156	2,874	91,895
Non-current assets	158,850	278	658	-727	159,059
Total assets	366,021	11,673	14,307	-2,006	389,995

Operating segments results for the three quarters of 2016:

(PLN '000)

	Construction	Sales	Design	Exclusions	Total
Revenue	197,564	60,428	6,672	-44,050	220,614
including:					
Revenue from external customers	196,879	17,657	6,029	49	220,614
Inter-segment revenues	685	42,771	643	-44,099	0
Gross profit	3,257	969	1,091	-400	4,917
Financial income / expenses	1,078	-332	-29	0	717
Interest received	1,286	0	0	0	1,286

Interest paid	-305	-135	-12	0	-452
Pre-tax profit	-5,667	-1,068	35	-169	-6,869
Corporate income tax	-836	80	25	-32	-763
Net profit	-4,831	-1,148	10	-137	-6,106
Depreciation and amortisation	6,843	131	79	115	7,168
Property, plant and equipment	78,917	7	133	2,973	82,030
Non-current assets	144,098	329	1,207	-1,048	144,586
Total assets	369,543	17,993	6,865	-13,215	381,186

49. Transactions with related entities

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

(PLN '000)

	Receivables		Payables	
	As at		As at	
	30-09-2017	31-12-2016	30-09-2017	31-12-2016
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

	Revenue		Purchases	
	Period ended		Period ended	
	30-09-2017	30-09-2016	30-09-2017	30-09-2016
RTI	3	3	0	0
RTI Germany	0	0	0	113
Wiesław Nowak	0	0	468	0
Total	3	3	468	113

	Advanced loans		Financial income (interest)	
	As at		Period ended	
	30-09-2017	31-12-2016	30-09-2017	30-09-2016
RTI	5	0	0	0
RTI Germany	57	58	1	0
Wiesław Nowak	0	0	0	0
Total	62	58	1	0

	Received loans		Financial expenses (interest)	
	As at		Period ended	
	30-09-2017	31-12-2016	30-09-2017	30-09-2016
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

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

In the reporting period 2017, RTI leased business establishments from ZUE on the basis of the lease of 31 December 2015.

On 2 January 2017, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 1 thousand to be repaid by 31 March 2017. The loan was disbursed on 5 January 2017. The loan plus interest was repaid on 27 March 2017.

On 30 March 2017, ZUE and Mr. Wiesław Nowak entered into an agreement whereby a car was purchased by ZUE. Transaction value: PLN 468 thousand. The payment was made on 3 April 2017.

On 26 May 2017, ZUE and RTI signed a loan agreement whereby RTI was granted a special-purpose loan of PLN 5 thousand to be repaid by 20 December 2018. The loan was disbursed on 26 May 2017.

On 19 June 2017, ZUE and RTI Germany signed the annex no. 2 to the loan agreement of 31 May 2016 whereby the repayment date was extended to 20 June 2018.

50. Court proceedings

At the date of preparation of this report, the Group is a party to the pending court proceedings concerning the Group's claims and liabilities of the total value of PLN 49,967 thousand; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 263 thousand and the total value of the proceedings concerning claims is PLN 49,704 thousand.

The pending court proceedings relate to the companies' operating activities.

The biggest pending court proceeding 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." Under the Contract, the Contracting Authority was obliged to provide the Contractor with an access to the entire construction site and the right to use it on the dates as specified in an appendix to the Contract. In case of delay through the fault of the Contracting Authority, the Contractor was authorised to charge the contractual penalties for each day of delay at the rate as specified in an appendix to the Contract. The Contracting Authority failed to provide an access to all parts of the Construction Site by the dates specified in the Contract. The Defendant questioned the claims made by the Petitioner both in terms of their amount and legitimacy. In addition, the Defendant filed a motion to dismiss the action and award the Defendant costs of the proceedings, including the cost of legal representation, according to the list of costs submitted during the proceedings. The Defendant filed a claim that the contractual fee charged by the Petitioners was too high in case the said motion for the dismissal was rejected.

The case concerns ZUE's claims whose value is PLN 18,521,943.30 plus interest and, consequently, exceeds 10% of the Company's equity.

In addition, on 29 September 2016, the Petitioner (PORR Polska Infrastructure; i.e. former BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) sued the Defendant (PKP Polskie Linie Kolejowe S.A.) for PLN 11,506,921.00 (out of which PLN 2,926,209.77 plus statutory interest was payable to ZUE) after additional works had been carried out and expenses had been incurred during the extended completion time. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. 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 Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III."

On 30 December 2016, the consortium of:

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

sued PKP Polskie Linie Kolejowe S.A. of Warsaw (the "Contracting Authority"). The lawsuit covered the claims relating to the performance of the following contract: "Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadolin – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III" (the "Contract").

The litigation value (the "Amount") is PLN 39.3m and includes:

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

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

Case concerning the following project: "Design and construction works as part of the following project: "Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie - Dąbrowa Górnicza Ząbkowice - Jaworzno Szczakowa section."

On 1 June 2015, ZUE S.A. of Cracow (Petitioner) sued PKP Polskie Linie Kolejowe S.A. of Warsaw (Defendant) for PLN 4,444,883.05 plus statutory interest and the costs of proceedings for the performance of additional works commissioned by the Contract Engineer (the Defendant's representative). The said works involved the replacement of the track structure, incorporating a subgrade protective layer, installation of geotextile and the filtration layer and installation of a deep drainage system at the section 288,850 – 291,609 km; i.e. the additional section of 2,009 km, in connection with the following Contract: "Design and construction works as part of the following Project: "Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie - Dąbrowa Górnicza Ząbkowice - Jaworzno Szczakowa section."

The Petitioner was obliged to perform the abovementioned works on the basis of the Contract Engineer's Order no. 17 although they went beyond the scope specified in the Functional Plan. According to the Plan, the Petitioner was obliged to perform the said works at the section 0.750 km and the location thereof had to be specified on the basis of geotechnical research. The purpose of the research was to identify the most "doubtful" land, which required the reinforcement of track substructure.

Before the lawsuit, the Defendant said that a risk of any works aimed at meeting specified parameters was borne by the Petitioner and that indicating the scope of works at 0.750 km in the Functional Plan was an obvious editorial mistake.

The Petitioner could not agree with the Defendant because a risk of incorrect description of an order was borne by the Defendant and the correction of an obvious mistake could not change the order understood as the Defendant's statement of will. The decision to impose on the Petitioner the obligation to perform any works goes beyond the risk included in the lump-sum remuneration. Therefore, the Petitioner demands the payment for the additional works commissioned by the Contract Engineer. In response, the Defendant filed a motion to dismiss the suit and questioned the Petitioner's obligation to carry out the tasks exclusively at 0.750 km. In addition, the Defendant stated there was no incorrect description of the order. According to the Defendant, each professional contractor acting with due care and diligence would be able to discover an obvious mistake of the Contracting Authority and take it into account while calculating the price.

The first instance District Court of Warsaw ruled that ZUE S.A. should be paid PLN 3,199,663.73 plus statutory interest from 2 December 2014 until the date of payment and dismissed the remaining claims. The Company is waiting for the ruling to become final and binding.

51. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	As at 30-09-2017	As at 31-12-2016
Bonds	24,278	28,080

Guarantees	55	58
Bills of exchange	5,093	4,120
Mortgages	0	0
Pledges	0	0
Total	29,426	32,258

Contingent assets in the form of bonds and guarantees include the bonds provided by banks and insurance companies for the benefit of the Group to secure the Group's claims relating to subcontracted construction services and the supply of materials.

Contingent liabilities

	As at 30-09-2017	(PLN '000) As at 31-12-2016
Bonds	412,603	203,078
Guarantees	9,501	15,709
Bills of exchange	264,832	128,319
Mortgages	54,259	201,018
Pledges	4,000	4,000
Total	745,195	552,124

Contingent liabilities in the form of bonds and guarantees include, in particular, bid bonds, performance bonds, defects liability bonds and advance payment bonds provided by insurance companies and banks to the Group's counterparties to secure their claims against the Group, mainly in connection with construction contracts and supply agreements. Insurance companies and banks have recourse against the Group.

At 30 June 2017, the registered pledge of PLN 4m is a security for the Agreement no. 07/067/15/Z/OB of 28 August 2015 between Railway gft Polska and mBank S.A.

The liabilities to banks and strategic clients are secured by bills of exchange. Mortgages are additional security for agreements with banks. Following the conclusion on 10 April 2017 of an annex to the financing agreement of 10 December 2015 between ZUE and BGŻ BNP Paribas S.A. whereby the security in the form of mortgage was replaced with a deposit, the mortgage was removed on 30 May 2017.

Approval of the condensed consolidated financial statements

These condensed consolidated financial statements for the nine months ended 30 September 2017 were approved for publication by the Management Board of ZUE on 7 November 2017.

Wiesław Nowak – Management Board President

Anna Mroczek – Management Board Vice-President

Jerzy Czeremuga – Management Board Vice-President

Maciej Nowak – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-President

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

Cracow, 7 November 2017



ZUE S.A.

**CONDENSED SEPARATE FINANCIAL STATEMENTS
FOR 9 MONTHS ENDED 30 SEPTEMBER 2017**

Cracow, 7 November 2017

III. SELECTED FINANCIAL DATA OF ZUE S.A.

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

	As at 30-09-2017		As at 31-12-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	158,850	36,864	143,469	32,430
Current assets	207,171	48,078	200,863	45,403
Total assets	366,021	84,942	344,332	77,833
Equity	199,722	46,349	209,623	47,383
Non-current liabilities	26,509	6,152	24,518	5,542
Current liabilities	139,790	32,441	110,191	24,908
Total equity and liabilities	366,021	84,942	344,332	77,833

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

	Period ended 30-09-2017		Period ended 30-09-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	212,280	49,871	197,564	45,222
Cost of sales	209,509	49,220	194,307	44,476
Gross profit (loss) on sales	2,771	651	3,257	746
Profit (loss) on operating activities	-9,872	-2,319	-6,745	-1,544
Gross profit (loss)	-11,748	-2,760	-5,667	-1,297
Net profit (loss) from continuing operations	-9,851	-2,314	-4,831	-1,106
Total comprehensive income	-9,901	-2,326	-4,818	-1,103

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

	Period ended 30-09-2017		Period ended 30-09-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-65,270	-15,334	-47,604	-10,896
Cash flows from investing activities	39,652	9,315	-6,181	-1,415
Cash flows from financing activities	6,935	1,629	-9,478	-2,169
Total net cash flows	-18,683	-4,390	-63,263	-14,480
Cash at the beginning of the period	61,207	13,835	169,795	39,844
Cash at the end of the period	42,119	9,774	106,774	24,762

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 30-09-2017	Exchange rate on 31-12-2016	Exchange rate on 2017-09-30
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.3091	4.4240	4.3120
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	4.2566	4.3757	4.3688
"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	4.3091	4.4240	4.3120

IV. CONDENSED SEPARATE FINANCIAL STATEMENTS OF ZUE S.A.

Separate statement of comprehensive income

						(PLN '000)			
	Note no.	9 months ended 30-09-2017	3 months ended 30-09-2017	9 months ended 30-09-2016	3 months ended 30-09-2016				
Continuing operations									
Revenue	5	212,280	112,185	197,564	85,662				
Cost of sales		209,509	103,313	194,307	86,800				
Gross profit (loss)		2,771	8,872	3,257	-1,138				
General and administrative expenses		12,680	4,337	12,293	3,527				
Other operating income	6	2,835	277	3,677	822				
Other operating expenses	7	2,798	852	1,386	827				
Profit (loss) on operating activities		-9,872	3,960	-6,745	-4,670				
Financial income	8	1,005	114	1,817	-41				
Financial expenses	9	2,881	384	739	256				
Pre-tax profit (loss)		-11,748	3,690	-5,667	-4,967				
Corporate income tax	10	-1,897	666	-836	-832				
Net profit (loss) from continuing operations		-9,851	3,024	-4,831	-4,135				
Net profit (loss)		-9,851	3,024	-4,831	-4,135				
Other net comprehensive income									
Items that will not be reclassified subsequently to profit or loss:		-50	0	13	0				

Actuarial gains (losses) concerning specific benefit schemes	-50	0	13	0
Other total net comprehensive income	-50	0	13	0
Total comprehensive income	-9,901	3,024	-4,818	-4,135

Number of shares	23,030,083	23,030,083	23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)	-0.43	-0.43	-0.21	-0.18
Total comprehensive income (loss) per share (PLN)	-0.43	-0.43	-0.21	-0.18

Separate statement of financial position

		(PLN '000)	
		As at	As at
	Note no.	30-09-2017	31-12-2016
ASSETS			
Non-current assets			
Property, plant and equipment	11	88,860	80,335
Investment property	12	8,000	7,349
Intangible assets		8,718	9,119
Goodwill	13	31,172	31,172
Investments in subordinates		210	210
Advance payments for investments in subordinates		0	0
Long-term receivables		0	0
Retentions on construction contracts	19	11,531	6,819
Deferred tax assets	10	10,354	8,465
Advanced loans		5	0
Other assets		0	0
Total non-current assets		158,850	143,469
Current assets			
Inventories	15	36,868	6,196
Trade and other receivables	16	127,539	74,937
Retentions on construction contracts	19	112	2,101
Current tax assets	10	0	0
Other financial assets	14	0	54,935
Other assets		533	1,198
Advanced loans		0	289
Cash and cash equivalents		42,119	61,207
Total current assets		207,171	200,863
Total assets		366,021	344,332

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		102,817	112,718
Total equity		199,722	209,623

Non-current liabilities

Long-term loans and bank credits and other financing sources	17	13,631	8,875
Retentions on construction contracts	19	5,541	6,717
Other financial liabilities		0	0
Liabilities under employee benefits		781	740
Deferred tax liabilities	10	0	0
Long-term provisions	18	6,136	7,556
Deferred income		0	0
Other liabilities		420	630
Total non-current liabilities		26,509	24,518

Current liabilities

Trade and other payables	20	104,789	74,740
Retentions on construction contracts	19	6,247	9,117
Short-term loans and bank credits and other financing sources	17	8,349	5,765
Other financial liabilities		36	37
Liabilities under employee benefits		16,982	16,562
Current tax liabilities	10	0	0
Short-term provisions	18	3,387	3,970
Total current liabilities		139,790	110,191
Total liabilities		166,299	134,709
Total equity and liabilities		366,021	344,332

Separate statement of changes in equity

(PLN '000)

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	1 January 2017	5,758	93,837	-2,690	112,718	209,623
Dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Buy-back of shares		0	0	0	0	0
Profit (loss)		0	0	0	-9,851	-9,851
Other net comprehensive income		0	0	0	-50	-50
Balance at	30 September 2017	5,758	93,837	-2,690	102,817	199,722

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	1 January 2016	5,758	93,837	-2,690	118,706	215,611
Dividend		0	0	0	-7,513	-7,513
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	-4,831	-4,831
Other net comprehensive income		0	0	0	13	13
Balance at	30 September 2016	5,758	93,837	-2,690	106,375	203,280

Separate statement of changes in equity

	(PLN '000)	
	Period ended 30-09-2017	Period ended 30-09-2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-11,748	-5,667
Adjustments for:		
Depreciation and amortisation	7,234	6,843
Foreign exchange gains / (losses)	405	-242
Interest and share in profit (dividends)	550	-735
(Gain) / loss on disposal of investments	-1,157	-134
Accrued expenses under commission on credits	0	0
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit (loss) before changes in working capital	-4,716	65
Change in receivables and retentions on construction contracts	-55,325	-27,573
Change in inventories	-30,672	1,852
Change in provisions and liabilities under employee benefits	-1,540	-10,061
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	26,299	-14,342
Change in accrued expenses	664	514
Change in funds of limited availability	0	0
Other adjustments	0	0
Income tax paid / tax refund	20	1,941
NET CASH FROM OPERATING ACTIVITIES	-65,270	-47,604
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	497	366
Purchase of property, plant and equipment and intangible assets	-15,915	-7,592
Investments in real property and intangible assets	0	0
Sale / (purchase) of financial assets in other entities	0	0
Sale / (purchase) of financial assets in subsidiaries	0	0
Purchase of financial assets available for sale	0	0
Cash payments to purchase debt instruments of other entities	-166,950	0
Cash from repurchase of debt instruments of other entities	221,575	0
Advanced loans	-9	-315
Repayment of granted loans	4	74
Dividends received	0	0
Interest received	141	1,286
Gain/loss on repurchase of debt instruments	309	0
Settlement of financial instruments – expenses	0	0
Other cash provided by/(used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	39,652	-6,181
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	15,047	3,790
Repayment of loans and bank credits	0	0
Decrease in finance lease liabilities	-7,707	-5,450
Interest paid	-404	-305

Other cash provided by / (used in) financing activities – dividends	-1	-7,513
Net cash from issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	6,935	-9,478
TOTAL NET CASH FLOWS	-18,683	-63,263
Net foreign exchange gains / (losses)	-405	242
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	61,207	169,795
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	42,119	106,774

Notes to Condensed Separate Financial Statements of ZUE

1. General information

Details of the Company

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

Composition of the Company's supervisory and management bodies 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

On 3 February 2017, the Company's Supervisory Board changed the composition of the Company's Management Board. Two members of the Management Board; i.e. Ms. Anna Mroczek and Mr. Maciej Nowak were dismissed and were subsequently appointed the Vice-Presidents of the Management Board for a common three-year term. (Current report 6/2017).

On 6 June 2017, the Ordinary General Meeting of the Company resolved to dismiss Ms. Magdalena Lis from the position of Member of the Company's Supervisory Board as of 6 June 2017 and appoint Ms. Barbara Nowak the Vice-Chairperson of the Company's Supervisory Board. Apart from this, the composition of the Supervisory Board did not change. (Current report 39/2017).

After the end of the reporting period; i.e. on 18 October 2017, the Audit Committee was established by the Company's Supervisory Board.

Audit Committee:

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

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

Functional and reporting currency

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

2. Use of International Financial Reporting Standards

Statement of compliance

The condensed separate financial statements have been drawn up in accordance with IAS 34 as at 30 September 2017 as endorsed by the European Union (EU).

The separate financial statements for the period 1 January 2017 – 30 September 2017 have been prepared according to the Regulation of the Minister of Finance of 19 February 2009 (as amended) 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

No amendments to the existing standards published by the International Accounting Standards Board (IASB) and approved of by the European Union, which would come into force for the first time in the separate financial statements for 2017, occurred when approving these financial statements.

Standards and interpretations published by the EU but not yet effective

When approving these financial statements, the following new standards and amendments to the standards were published by the International Accounting Standards Board (IASB) and approved for use in the EU but did not come into force:

- **IFRS 9 "Financial Instruments"** - approved of in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective Date of IFRS 15" - approved of in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019);
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);

- **Amendments to IFRS 2 “Share-based Payment”** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 “Insurance Contracts”** – Use of IFRS 9 “Financial Instruments” and IFRS 4 “Insurance Instruments” (effective for annual periods beginning on or after 1 January 2018 or upon the use of IFRS 9 “Financial Instruments” for the first time);
- **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 7 “Statement of Cash Flows”** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 “Income Taxes”** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards “Improvements to IFRSs (2014-2016 Cycle)”** – made as part of annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) aimed mainly at the resolution of inconsistencies and specification of vocabulary (amendments to IFRS 12 effective for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018);
- **Clarifications to IFRS 15 “Revenue from Contracts with Customers”** (effective for annual periods beginning on or after 1 January 2018);
- **International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018);
- **International Financial Reporting Interpretations Committee's (IFRIC) 23 Uncertainty over Income Tax Treatments** (effective for annual periods beginning on or after 1 January 2019).

The Company is analysing IFRS 15 “Revenue from Contracts with Customers” and IFRS 16 “Leases.” The initial assessment has shown that IFRS 15 should not have any material influence on the financial statements. Detailed analysis of IFRS 16 will be carried out in 2018.

The Company believes that the remaining changes to IFRS should not have any material influence on the financial statements.

3. Important accounting principles

Going concern

The quarterly separate financial statements have been prepared assuming that the Company will continue in operational existence for the foreseeable future. No going concern risks exist at the end of the reporting period.

Preparation basis

The Company has prepared these quarterly separate financial statements according to the regulations set out in IAS 34 “Interim Financial Reporting” and used the same principles for current and comparative period.

Comparability of financial information

No changes in the presentation of financial information have been made in the comparative periods.

Applied accounting principles

These quarterly separate financial statements for the nine months ended 30 September 2017 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 2016. The financial statements for the financial year ended 31 December 2016 contain a detailed description of accounting principles used by the Company.

These 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.

4. Revisions to estimates

The preparation of financial statements in conformity with the IFRS requires the Management Board of ZUE 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.

Note no. 18 presents the changes in provisions.

5. Revenue

	(PLN '000)	
	Period ended 30-09-2017	Period ended 30-09-2016
Revenue from the sale of goods and raw materials	1,094	22,351
Revenue from the rendering of services	7,115	4,365
Revenue from construction contracts	204,071	170,848
Total	212,280	197,564

The Company's revenue in the period from 1 January 2017 - 30 September 2017 amounted to PLN 212,280 thousand – up by 7% when compared with revenue in the analogous period of 2016.

The increase in revenue reported in the third quarter of 2017 was mainly influenced by the performance of new contracts won under the present EU perspective. Previously, the said contracts were in early stages of organisation and did not generate significant revenues because of early stages of organisation.

6. Other operating income

	(PLN '000)	
	Period ended 30-09-2017	Period ended 30-09-2016
Gain on disposal of assets:	157	134
Gain on disposal of non-current assets	157	134
Other operating income:	2,678	3,543
Re-invoicing of bonds and policies	765	206
Received damages	153	296
Release of write-downs of receivables	359	1,116
Refund of costs of court proceedings	48	40
Release of provisions for court cases	0	1,500
Release of allowances for inventories	14	173
Release of allowances for investment property	1,000	0
Other	339	212

Total	2,835	3,677
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In the reporting period, ZUE released investment property impairment loss of PLN 1,000 thousand due to a change in estimates.

7. Other operating expenses

	(PLN '000)	
	Period ended 30-09-2017	Period ended 30-09-2016
Loss on disposal of assets:	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses:	2,798	1,386
Donations	14	58
Paid damages	588	54
Costs of litigations	122	105
Costs of performance bonds	765	206
Revaluation of inventories	0	0
Write-downs of receivables	1,259	753
Remission of debt	0	3
Other	50	207
Total	2,798	1,386

In the reporting period, the Company recognised the write-downs of PLN 1,259 thousand including the write-down recognised in connection with an invoice for additional works issued by PKP PLK.

8. Financial income

	(PLN '000)	
	Period ended 30-09-2017	Period ended 30-09-2016
Interest income:	436	1,264
Interest on bank deposits	141	1,231
Interest on loans	6	1
Interest on receivables	289	32
Foreign exchange gains	0	319
Gain on disposal of investment	0	0
Dividend income	0	0
Other financial income:	569	234
Discount of long-term items	0	91
Realisation of financial instruments	309	0
Guarantees	257	143
Other	3	0
Total	1,005	1,817

The decrease in financial income is a result of using more money to conduct operating activities (e.g. to perform newly won contracts) and, consequently, investing less money in deposits and other financial instruments.

9. Financial expenses

	(PLN '000)	
	Period ended 30-09-2017	Period ended 30-09-2016
Interest expenses:	627	310
Interest on bank overdrafts and credits	0	0
Interest on finance lease liabilities	404	305
Interest on loan	0	0
Interest on trade and other payables	223	5
Other financial expenses:	2,254	429
Foreign exchange losses	623	0
Discount of long-term items	1,285	300
Realisation of financial instruments	0	0
Allowance for investments in other units	287	0
Other	59	129
Total	2,881	739

The increase in financial expenses was mainly influenced by a discount of long-term money deposits paid in the reporting period.

10. Corporate income tax

Corporate income tax recognised in statement of comprehensive income

	(PLN '000)	
	Period ended 30-09-2017	Period ended 30-09-2016
Current income tax	-20	1,090
Deferred tax	-1,877	-1,926
Total tax expense/income	-1,897	-836

The tax currently payable is calculated pursuant to applicable tax laws. According to these laws, taxable profit (loss) differs from accounting net profit (loss) because it excludes items of income or expense that are not taxable or deductible and items of income or expense that are never taxable. The Company's tax liability is calculated using tax rates applicable during the fiscal year in question.

The Company is subject to general regulations governing corporate income tax. The Company neither forms a tax capital group nor operates in a Special Economic Zone. Tax year and financial year coincide with a calendar year.

Current income tax

	(PLN '000)	
	Period ended 30-09-2017	Period ended 30-09-2016
Gross profit (loss)	-11,748	-5,667
Difference between gross profit (loss) and income tax base:	1,266	-20,409.0
- differences between gross profit and taxable income resulting from costs that are not tax-deductible under tax regulations and revenue not classified as revenue under tax regulations and additional costs and revenue	1,266	-20,409
- other differences (including loss brought forward)	0	0
Income/loss	-10,482	-26,076
Income tax base	0	0
Income tax at the applicable rate of 19%	0	0
Income tax paid/(refunded) on profit earned abroad	-20	978
Tax increases, waivers, exemptions, deductions and reductions	0	0
Adjustment of income tax of prior years	0	112
Current income tax	-20	1,090

Current tax assets and liabilities

	(PLN '000)	
	As at 30-09-2017	As at 31-12-2016
Current tax assets		
Tax refundable	0	0
Total	0	0
Current tax liabilities		
Tax payable	0	0
Total	0	0

Deferred tax balance

(PLN '000)

	Period ended 30-09-2017	Period ended 30-09-2016
Deferred tax balance at the beginning of the period	8,465	8,233
Merger opening balance	0	0
Temporary differences relating to deferred tax assets:	24,349	21,174
Provisions for expenses and accruals	9,477	13,243
Discount of receivables	498	245
Liabilities under leases	141	355
Other, including allowances for receivables	3,371	2,993
Tax work in progress	10,862	4,338
Temporary differences relating to deferred tax liabilities:	23,857	15,972
Measurement of long-term contracts	14,383	6,261
Property, plant and equipment and intangible assets	9,160	9,391
Discount of payables	314	320
Other	0	0
Unused tax losses and other tax credits to be settled in future:	9,862,00	4,954,00
Tax losses	9,862	4,954
Tax credits	0	0
Other	0	0
Total temporary differences relating to deferred tax assets:	34,211	26,128
Total temporary differences relating to deferred tax liabilities:	23,857	15,972
Deferred tax balance at the end of the period	10,354	10,156
Change in deferred tax, including:	1,889	1,923
- recognised in income	1,877	1,926
- recognised in equity	12	-3

Deferred tax recognised in equity is a result of calculating tax on liabilities under employee benefits presented in comprehensive income.

Deferred tax assets and liabilities

(PLN '000)

	01-01-2017	Created	Used	30-09-2017
Deferred tax assets	21,512	12,700	0	34,212
Deferred tax liability	13,047	10,811	0	23,858
Balance of assets and liabilities	8,465			10,354

Deferred tax assets and liabilities are presented by the Company according to their netted balance (IAS 12).

11. Property, plant and equipment

(PLN '000)

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 2017	0	24,542	46,704	50,854	1,949	124,049	518	2,967	127,534
Additions	0	34	125	16,572	122	16,853	2,619	0	19,472
Transfer to non-current assets	0	0	0	0	0	0	1,161	2,967	4,128
Liquidations	0	0	956	702	20	1,678	0	0	1,678
Balance at 30 September 2017	0	24,576	45,873	66,724	2,051	139,224	1,976	0	141,200
Depreciation									
Balance at 1 January 2017	0	6,920	18,207	20,509	1,565	47,199	0	0	47,199
Elimination on disposal of assets	0	0	707	612	17	1,336	0	0	1,336
Depreciation expense	0	592	2,309	3,468	108	6,477	0	0	6,477
Balance at 30 September 2017	0	7,512	19,809	23,365	1,656	52,340	0	0	52,340
Carrying amount									
Balance at 1 January 2017	0	17,622	28,497	30,345	384	76,850	518	2,967	80,335
Balance at 30 September 2017	0	17,064	26,064	43,359	395	86,884	1,976	0	88,860

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

12. Investment property

(PLN '000)

Gross value	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	126	5,228	5,186	0	0	0	10,540
Additions	0	0	0	0	0	0	0
Impairment	0	0	-1,000	0	0	0	-1,000
Liquidations	0	0	0	0	0	0	0
Balance at 30 September 2017	126	5,228	6,186	0	0	0	11,540
Depreciation	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	0	1,333	1,859	0	0	0	3,192
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	129	219	0	0	0	348
Balance at 30 September 2017	0	1,462	2,078	0	0	0	3,540
Carrying amount	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	126	3,895	3,327	0	0	0	7,349
Balance at 30 September 2017	126	3,766	4,108	0	0	0	8,000

As at 30 September 2017, investment property includes:
- real property in Kościelisko (plots no. 2001 and 2491); and
- real property in Poznań (plot no. 2/1)

All of the Company's investment property is held either as freehold or leasehold interests. In 2017, the Company partially released the impairment loss of PLN 1,000 thousand due to a change in estimates. The total value of investment property impairment losses is PLN 2,970 thousand.

13. Goodwill

	(PLN '000)	
	As at	As at
	30-09-2017	31-12-2016
At cost		
Goodwill of PRK	31,172	31,172
Balance at the end of the reporting period	31,172	31,172

ZUE merged with PRK on 20 December 2013. The control of PRK was gained by ZUE in 2010.

The goodwill of PLN 31,172 thousand and the leasehold value (difference in the fair value of the net assets at acquisition) of PLN 15,956 thousand (adjusted for a deferred tax asset) disclosed in the separate financial statements at the merger date were calculated as at the date the control of PRK was gained by ZUE in 2010 and follow from the consolidated financial statements. Changes in interests resulting from the merger were accounted for as changes in equity.

ZUE and PRK merged under joint control.

At the end of the reporting period, there was no need to recognise any impairment of goodwill of PRK. A test for the impairment of goodwill will be carried out at the end of the year.

14. Other financial assets

	(PLN '000)			
	Current		Non-current	
	As at	As at	As at	As at
	30-09-2017	31-12-2016	30-09-2017	31-12-2016
Financial debt instruments	0	54,935	0	0
Other	0	0	0	0
Total	0	54,935	0	0

The decrease by PLN 54,935 thousand results from the sale of corporate bonds of another entity.

15. Inventories

	(PLN '000)	
	As at	As at
	30-09-2017	31-12-2016
Materials	35,082	5,239
Work in progress	1,586	759
Finished goods	200	198
Total	36,868	6,196

The increase in inventories by PLN 30,672 thousand is a result of gathering inventories to perform the existing and new contracts. Strategic materials such as aggregate, sleepers, rails or railway switches are bought and long-term master agreements for the purchase of the abovementioned materials are signed to reduce the risk of price increase in times of limited supply caused by the accumulation of railway works.

16. Trade and other receivables

	(PLN '000)	
	As at	As at
	30-09-2017	31-12-2016
Trade receivables	52,488	65,107
Write-downs of trade receivables	-13,621	-14,699
Receivables from the state budget other than corporate income tax	5,958	4,251
Receivables under contracts (measurement)	75,702	17,460
Advance payments	2,517	2,563
Other receivables	4,495	255
Total trade and other receivables	127,539	74,937

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

	(PLN '000)	
	As at	
	30-09-2017	
Counterparty A		19,688
		19,688

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to high creditworthiness of the abovementioned counterparties assessed, *inter alia*, by analysing their financial standing and the fact that they meet additional requirements for settling EU funds. Accordingly, the Management Board of the Company believe there is no need to create additional allowances.

17. Loans and bank credits and other sources of finance

	(PLN '000)	
	As at	As at
	30-09-2017	31-12-2016
Long-term	13,631	8,875
Bank credits	0	0
Loans received	0	0
Finance lease liabilities	13,631	8,875
Short-term	8,349	5,765
Bank credits	0	0
Loans received	0	0
Finance lease liabilities	8,349	5,765
Total	21,980	14,640

In the second quarter of 2017, the Company entered into a lease contract for wagons (for ballast cleaning) of PLN 14,600 thousand. In the third quarter of 2017, the Company entered into a lease contract for cars of PLN 447 thousand.

18. Provisions

Change in provisions

(PLN '000)

Provisions	01-01-2017	Created	Used	Released	Reclassified	30-09-2017	Item
Long-term provisions:	8,296	1,084	83	59	2,321	6,917	
Provisions for employee benefits	740	41	0	0	0	781	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,556	1,043	83	59	2,321	6,136	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	15,656	13,333	9,340	7,539	-2,321	14,431	
Provisions for employee benefits	11,686	9,339	8,959	1,022	0	11,044	Liabilities under employee benefits (short-term)
Provisions for warranty claims	3,221	14	381	2,980	-2,321	2,195	Short-term provisions
Provisions for loss on contracts	749	3,980	0	3,537	0	1,192	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	23,952	14,417	9,423	7,598	0	21,348	

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

Provisions for employee benefits include the provisions for leaves, bonuses, overtime work as well as liabilities under salaries and social security premiums. The provisions for employee benefits decreased in the reporting period mainly as a result of payment of contract bonuses of prior years.

A provision for loss on contracts is created if the budgeted expenses are higher than the total revenue under a contract. Provisions for loss on contracts increased following the update of contract budgets.

19. Retentions on construction contracts

(PLN '000)

	As at	As at
	30-09-2017	31-12-2016
Retained by customers – to be repaid after 12 months	11,531	6,819
Retained by customers – to be repaid within 12 months	112	2,101
Total retentions on construction contracts retained by customers	11,643	8,920
Retained for suppliers – to be repaid after 12 months	5,541	6,717
Retained for suppliers – to be repaid within 12 months	6,247	9,117
Total retentions on construction contracts retained for suppliers	11,788	15,834

Construction contracts and work for hire agreements signed by the Company contain an obligation to provide performance and defects liability bonds in the form of a deposit or a bond provided by banks or insurance companies. Contracting authorities expect the guarantee periods to be longer and longer and banks create additional security in the form of deposits to secure the bond expiring after 37 months.

20. Trade and other payables

	(PLN '000)	
	As at	As at
	30-09-2017	31-12-2016
Trade payables	33,953	53,329
Liabilities to the state budget other than corporate income tax	950	837
Accruals	27,636	19,060
Liabilities under contracts (measurement)	500	1,413
Other payables	141	101
Advance payments	41,609	0
Total trade and other payables	104,789	74,740

Accruals include, in particular, provisions for the expenses associated with subcontractors and provisions for contract settlement risks.

Advance payments include prepayments received by the Group under contracts entered into with PKP PLK. Under the said contracts, advance payments were made to enable the performance of construction contracts.

21. Seasonal and cyclical nature of the Company's operations

Seasonal and cyclical nature is a distinctive feature of the entire construction and assembly industry the Company operates in. It has been described in detail in section II.18 of the consolidated financial statements: "Notes on seasonal and cyclical nature of the Group's operations."

22. Discontinued operations

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

23. Issue and redemption of debt and equity instruments

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

24. Dividend

On 15 March 2017, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2016 of PLN 1.5m to reserve funds. The Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations.

On 6 June 2017, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2016 according to the abovementioned recommendations.

25. Investments in non-current assets

The total capital expenditure incurred by ZUE in the reporting period amounted to PLN 18,794 thousand.

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

(PLN '000)

Investments in non-current assets				
Item:	Own funds	Leases	Credits	Total
Intangible assets, including:	8	0	0	8
- leasehold land	0	0	0	0
Property, plant and equipment, including:	1,805	15,047	0	16,852
- buildings and structures	34	0	0	34
- plant and equipment	125	0	0	125
- vehicles	1,524	15,047	0	16,571
- other	122	0	0	122
Non-current assets under construction	1,934	0	0	1,934
Investment property	0	0	0	0
Equity investments	0	0	0	0
Total investments	3,747	15,047	0	18,794

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

- Purchase of 10 wagons (for ballast cleaning) worth PLN 14,600 thousand (lease).
- Complete overhauls of machines and vehicles in the total amount of PLN 375 thousand.
- Purchase of cars for PLN 925 thousand (including lease of PLN 447 thousand).
- Purchase of railroad crane for PLN 369 thousand.
- Purchase of two mail cars for PLN 247 thousand.
- Expenditure on PV 15RPR pile driver of PLN 1,934 thousand.

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

The amount recognized in the statement of cash flows is PLN 15,915 thousand. The difference results, *inter alia*, from actual payments made after the end of the reporting period and leaseback.

In the second quarter of 2017, the Company entered into a lease contract for wagons (for ballast cleaning) of PLN 14,600 thousand. In the third quarter of 2017, the Company entered into a lease contract for cars of PLN 447 thousand. Initially, the transactions were financed by own resources.

Certain interim financial statements may reveal changes in "Non-current assets under construction." The changes result mainly from admitting a non-current asset as complete and fit for use. At the end of the reporting period,

non-current assets under construction include PV 15 RPR pile driver with an expected completion date scheduled for November 2017.

26. Segment reporting

ZUE's reporting is based on operating segments. According to the aggregation criteria as set out in the IFRS 8.12, the Company presents one aggregate operating segment, namely engineering construction and assembly services.

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

27. Transactions with related entities

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

	Receivables		Payables	
	As at		As at	
	30-09-2017	31-12-2016	30-09-2017	31-12-2016
Railway GFT	76	69	541	21,816
BPK Poznań	9	13	704	1,149
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	85	82	1,245	22,965

	Revenue		Purchases	
	Period ended		Period ended	
	30-09-2017	30-09-2016	30-09-2017	30-09-2016
Railway GFT	242	503	27,246	42,845
BPK Poznań	364	440	1,679	648
RTI	3	3	0	0
RTI Germany	0	0	0	113
Wiesław Nowak	0	0	468	0
Total	609	946	29,393	43,606

	Advanced loans		Financial income (interest)	
	As at		As at	
	30-09-2017	31-12-2016	30-09-2017	30-09-2016
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	0
RTI	5	0	0	0
RTI Germany	57	58	1	0
Wiesław Nowak	0	0	0	0
Total	62	58	1	0

	Received loans		Financial expenses (interest)	
	As at		As at	
	30-09-2017	31-12-2016	30-09-2017	30-09-2016
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	0
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

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

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

- o Design services;
- o Lease of rooms, including utilities and phone services; and
- o Financial services.

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

- o Purchase of materials used in connection with the construction and repair of tracks;
- o Design services;
- o Printing services;
- o Training services;
- o Equipment services;
- o Transport services;
- o Rail welding services;

- o Office equipment;
- o Vehicles (car); and
- o Shipping services.

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

In the reporting period, BPK Poznań leased rooms from ZUE on the basis of the lease of 1 October 2015 and the lease of 7 April 2010 amended on the basis of the annexes thereto.

On 2 January 2017, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 1 thousand to be repaid by 31 March 2017. The loan was disbursed on 5 January 2017. The loan plus interest was repaid on 27 March 2017.

On 30 March 2017, ZUE and Mr. Wiesław Nowak entered into an agreement whereby a car was purchased by ZUE. Transaction value: PLN 468 thousand. The payment was made on 3 April 2017.

On 26 May 2017, ZUE and RTI signed a loan agreement whereby RTI was granted a special-purpose loan of PLN 5 thousand to be repaid by 20 December 2018. The loan was disbursed on 26 May 2017.

On 19 June 2017, ZUE and RTI Germany signed the annex no. 2 to the loan agreement of 31 May 2016 whereby the repayment date was extended to 20 June 2018.

On 10 August 2017, ZUE (the lessor) and RGFT (the lessee) signed the lease. The lease came into force on 1 October 2017.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the guarantees as at 30 September 2017 is PLN 27,400 thousand.

28. Court proceedings

At the date of preparation of this report, the Company is a party to the pending court proceedings concerning the Company's claims and liabilities of the total value of PLN 49,890 thousand; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 263 thousand and the total value of the proceedings concerning claims is PLN 49,627 thousand.

The pending court proceedings are related to Company's operating activities. Section II 50 of the consolidated financial statements contains a detailed description of the court proceedings.

29. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	As at 30-09-2017	As at 31-12-2016
Bonds	23,638	27,489
Guarantees	0	0
Bills of exchange	5,979	4,364
Mortgages	0	0
Pledges	0	0
Total	29,617	31,853

Contingent assets in the form of bonds and guarantees include the bonds provided by banks and insurance companies for the benefit of ZUE to secure the Company's claims relating to subcontracted construction services and the supply of materials.

Contingent liabilities

	(PLN '000)	
	As at 30-09-2017	As at 31-12-2016
Bonds	403,650	195,670
Guarantees	27,400	15,709
Bills of exchange	243,908	110,290
Mortgages	54,259	201,017
Pledges	0	0
Total	729,217	522,686

Contingent liabilities in the form of bonds include, in particular, bid bonds, performance bonds, defects liability bonds and advance payment bonds provided by insurance companies and banks to the Company's counterparties to secure their claims against the Company, mainly in connection with construction contracts and supply agreements. Insurance companies and banks have recourse against the Company.

Contingent liabilities in the form of guarantees are the security for credits and bonds provided by banks and insurance companies to subsidiaries. The said credits and bonds are 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 agreements with banks. Following the conclusion on 10 April 2017 of an annex to the financing agreement of 10 December 2015 between ZUE and BGŻ BNP Paribas S.A. whereby the security in the form of mortgage was replaced with a deposit, the mortgage was removed on 30 May 2017.

Approval of the condensed separate financial statements

These condensed separate financial statements for the nine months ended 30 September 2017 were approved for publication by the Management Board of ZUE on 7 November 2017.

Wiesław Nowak – Management Board President

Anna Mroczek – Management Board Vice-President

Jerzy Czeremuga – Management Board Vice-President

Maciej Nowak – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-President

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

Cracow, 7 November 2017