ZUE Capital Group

CONSOLIDATED QUARTERLY REPORT
FOR 3 MONTHS ENDED 31 MARCH 2018

Cracow, 22 May 2018

Contents of the consolidated quarterly report:

(PLN ' 000, unless otherwise provided)

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 (Handelsregister B, HRB) maintained by the District Court in Dresden (*Amtsgericht Dresden*) under entry number HRB 36690. Share capital of EUR 25,000 paid up in full. Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
ZUE Group, Group, Capital Group	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Journal of Laws 2017, item 1577).

Share capital details as at 31 March 2018.

ZUE Capital Group

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 3 MONTHS ENDED 31 MARCH 2018

Cracow, 22 May 2018

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ZUE Capital Group

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR 3 MONTHS ENDED 31 MARCH 2018

Cracow, 22 May 2018

I. Selected financial data of the Group

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

	Balance at 31-03-2018		Balance at 31-12-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	166,017	39,448	158,593	38,024
Current assets	283,474	67,357	343,659	82,394
Total assets	**449,491**	**106,805**	**502,252**	**120,418**
Equity	207,529	49,312	209,419	50,210
Non-current liabilities	26,445	6,284	25,472	6,107
Current liabilities	215,517	51,209	267,361	64,101
Total equity and liabilities	**449,491**	**106,805**	**502,252**	**120,418**

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

	Period ended 31-03-2018		Period ended 31-03-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	125,903	30,132	33,167	7,733
Cost of sales	122,362	29,284	36,236	8,449
Gross profit (loss) on sales	**3,541**	**848**	**-3,069**	**-716**
Operating profit (loss)	-2,335	-559	-9,198	-2,145
Gross profit (loss)	-2,280	-546	-9,616	-2,242
Net profit (loss) from continuing operations	**-1,890**	**-452**	**-8,168**	**-1,904**
Total comprehensive income	-1,890	-452	-8,168	-1,904

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

	Period ended 31-03-2018		Period ended 31-03-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-76,108	-18,215	-31,022	-7,233
Cash flows from investing activities	-11,676	-2,794	11,247	2,622
Cash flows from financing activities	2,926	700	-1,819	-424
Total net cash flows	**-84,858**	**-20,309**	**-21,594**	**-5,035**
Cash at the beginning of the period	117,748	28,231	62,717	14,177
Cash at the end of the period	32,944	7,828	40,312	9,553

Rules adopted to translate selected financial data into EUR:

Item	**Exchange rate**	**Exchange rate on 31-03-2018**	**Exchange rate on 31-12-2017**	**Exchange rate on 31-03-2017**
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2085	4.1709	n/a
Items of statement of profit or loss and statement of cash flows	Arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month of the period	4.1784	n/a	4.2891

(PLN ' 000, unless otherwise provided)

"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	4.2085	4.1709	4.2198

II. Condensed consolidated financial statements of the Group

Consolidated statement of comprehensive income

Continuing operations	**Note no.**	**3 months ended 31-03-2018**	**3 months ended 31-03-2017**
Revenue	4.3.1.	125,903	33,167
Cost of sales	4.3.2.	122,362	36,236
Gross profit (loss) on sales		**3,541**	**-3,069**
General and administrative expenses	4.3.2.	5,221	5,557
Other operating income	4.3.3.	721	796
Other operating expenses	4.3.4.	1,376	1,368
Operating profit (loss)		**-2,335**	**-9,198**
Financial income	4.3.5.	383	585
Financial expenses	4.3.6.	328	1,003
Pre-tax profit (loss)		**-2,280**	**-9,616**
Corporate income tax	4.3.7.	-390	-1,448
Net profit (loss) from continuing operations		**-1,890**	**-8,168**
Net profit (loss)		**-1,890**	**-8,168**
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		**0**	**0**
Actuarial gains (losses) relating to specific benefit schemes		0	0
Other total net comprehensive income		**0**	**0**
Total comprehensive income		**-1,890**	**-8,168**
Number of shares		23,030,083	23,030,083
Consolidated net profit attributable to:			
Shareholders of the parent		-1,942	-7,940
Non-controlling interests		52	-228
Net profit (loss) per share (PLN) attributable to shareholders of the parent (basic and diluted)		0.00	-0.34
Total comprehensive income attributable to:			
Shareholders of the parent		-1,942	-7,940
Non-controlling interests		52	-228
Total comprehensive income per share (PLN)		-0.08	-0.34

(PLN ' 000, unless otherwise provided)

Consolidated statement of financial position

	Note no.	Balance at 31-03-2018	Balance at 31-12-2017
ASSETS			
Non-current assets			
Property, plant and equipment	4.7.1.	101,900	95,023
Investment property	4.7.2.	5,518	5,591
Intangible assets		8,966	9,087
Goodwill	4.7.3.	31,172	31,172
Retentions on construction contracts	4.4.2.	10,047	9,696
Deferred tax assets	4.3.7.	8,414	8,024
Total non-current assets		**166,017**	**158,593**
Current assets			
Inventories	4.7.6.	45,702	27,938
Trade and other receivables	4.5.1.	199,881	192,148
Retentions on construction contracts	4.4.2.	549	4,718
Current tax assets	4.3.7.	0	0
Loans advanced	4.7.5.	3,227	10
Other assets		1,171	1,097
Cash and cash equivalents	4.6.3.	32,944	117,748
Total current assets		**283,474**	**343,659**
Total assets		**449,491**	**502,252**

	Note no.	Balance at 31-03-2018	Balance at 31-12-2017
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		110,663	112,605
Total equity attributable to shareholders of ZUE		**207,568**	**209,510**
Equity attributable to non-controlling interests		-39	-91
Total equity		**207,529**	**209,419**
Non-current liabilities			
Long-term loans and bank credits and other financing sources	4.6.1.	11,661	11,224
Retentions on construction contracts	4.4.2.	6,455	6,254
Other financial liabilities		280	350
Liabilities under employee benefits		1,899	1,888
Long-term provisions	4.4.3.	6,150	5,756
Total non-current liabilities		**26,445**	**25,472**
Current liabilities			
Trade and other payables	4.5.2.	171,004	224,286
Retentions on construction contracts	4.4.2.	5,439	6,795
Short-term loans and bank credits and other financing sources	4.6.1.	18,200	14,908
Other financial liabilities		316	316
Liabilities under employee benefits		17,565	17,522
Current tax liabilities	4.3.7.	0	0
Short-term provisions	4.4.3.	2,993	3,534
Total current liabilities		**215,517**	**267,361**
Total liabilities		**241,962**	**292,833**
Total equity and liabilities		**449,491**	**502,252**

(PLN ' 000, unless otherwise provided)

Consolidated statement of changes in equity

		Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the parent	Equity attributable to non-controlling interests	Total equity
Balance at	**1 Jan 2018**	**5,758**	**93,837**	**-2,690**	**112,605**	**209,510**	**-91**	**209,419**
Change of interest in subsidiaries		0	0	0	0	0	0	0
Dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	-1,942	-1,942	52	-1,890
Other net comprehensive income		0	0	0	0	0	0	0
Balance at	**31 Mar 2018**	**5,758**	**93,837**	**-2,690**	**110,663**	**207,568**	**-39**	**207,529**

		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	-7,940	-7,940	-228	-8,168
Other net comprehensive income		0	0	0	0	0	0	0
Balance at	**31 Mar 2017**	**5,758**	**93,837**	**-2,690**	**104,451**	**201,356**	**-242**	**201,114**

(PLN '000, unless otherwise provided)

Consolidated statement of cash flows

	3 months ended 31-03-2018	3 months ended 31-03-2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	**-2,280**	**-9,616**
Adjustments for:		
Depreciation and amortisation	2,545	2,377
Foreign exchange gains / (losses)	-54	811
Interest and share in profit (dividends)	27	113
(Gain) / loss on disposal of investments	-6	-108
Accrued expenses under commission on credits	0	3
Operating profit before changes in working capital	**232**	**-6,420**
Change in receivables and retentions on construction contracts	-4,066	29,254
Change in inventories	-17,764	-16,198
Change in provisions and liabilities under employee benefits	-91	-3,488
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	-54,404	-34,560
Change in accrued expenses	-15	408
Income tax paid / tax refund	0	-18
NET CASH FROM OPERATING ACTIVITIES	**-76,108**	**-31,022**
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	450	267
Purchase of property, plant and equipment and intangible assets	-9,102	-506
Cash payments to purchase debt instruments of other entities	0	-126,889
Redemption of debt instruments of other entities	0	138,083
Loans advanced	-3,217	-4
Repayment of granted loans	0	4
Interest received	193	75
Gain / (loss) on redemption of debt instruments	0	217
NET CASH FROM INVESTING ACTIVITIES	**-11,676**	**11,247**
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	6,345	907
Repayment of loans and bank credits	-598	0
Decrease in finance lease liabilities and liabilities relating to financing of property, plant and equipment	-2,614	-2,543
Interest paid	-207	-182
Other cash provided by / (used in) financing activities – dividends	0	-1
NET CASH FLOWS FROM FINANCING ACTIVITIES	**2,926**	**-1,819**
TOTAL NET CASH FLOWS	**-84,858**	**-21,594**
Net foreign exchange gains / (losses)	54	-811
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**117,748**	**62,717**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**32,944**	**40,312**

Notes to the condensed consolidated financial statements of the Group

1. General information

1.1. Composition of the Capital Group

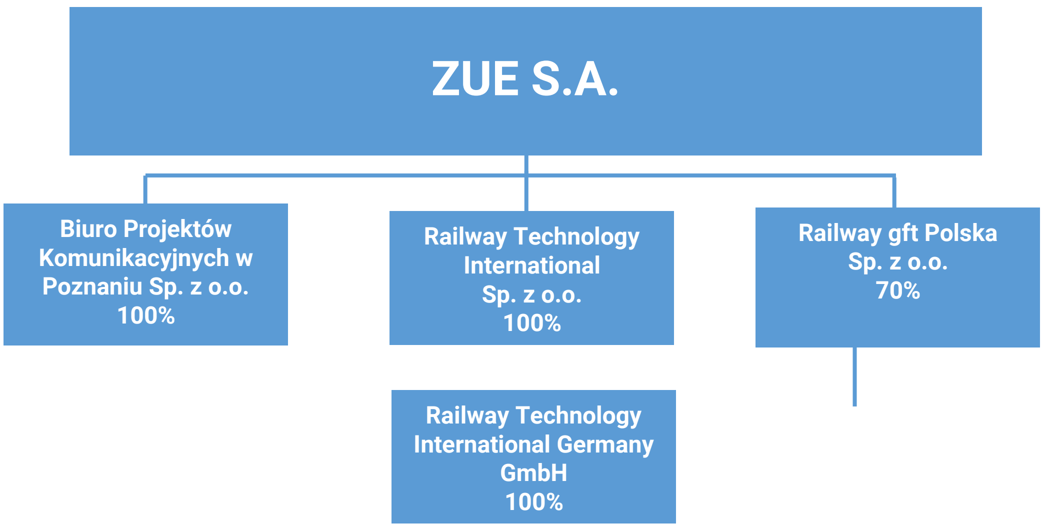
At the end of the reporting period, the Capital Group is composed of ZUE S.A. (parent company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o and Railway Technology International Germany GmbH (indirect subsidiary).

ZUE Spółka Akcyjna with registered office in Cracow (the Kazimierza Czapińskiego Street no. 3) is the parent company of the Capital Group.

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

Apart from being the provider of construction services, ZUE is the parent company responsible for coordinating the operation of the subsidiaries and optimising the Capital Group's operating expenses through, *inter alia*, the coordination of investment and financial policy. In addition, ZUE's task is to create a uniform marketing policy of the Capital Group and to promote the Group's potential among its customers.

Structure of the Capital Group at the date of the report approval:



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

Subsidiary – Railway gft Polska Sp. z o.o. has been established under the deed of 21 October 2014 in the Notary's Office in Cracow, 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.

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.

(PLN '000, unless otherwise provided)

1.2. Consolidated companies

Consolidated companies at 31 March 2018:

Company	Registered office	Interests as at		Consolidation method
		31 March 2018	31 December 2017	
ZUE S.A.	Cracow	Parent company	Parent company	
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	70%	70%	Full

ZUE is entitled to manage the financial and operating policy of BPK Poznań and Railway gft because at 31 March 2018, it holds a 100% and 70% interest, respectively, in these companies.

At 31 March 2018, 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 31 March 2018.

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 31 March 2018.

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

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

On 10 April 2018, ZUE acquired 2,205 shares in RTI from Mr. Wiesław Nowak for the total amount of PLN 58 thousand. After the transaction, ZUE holds a 100% interest in the share capital of RTI and the total number of votes.

1.4. Activities of the Capital Group

The Group identifies the three aggregate operating segments:

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

Construction activities include:

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

- Construction and upgrade of high and very high voltage cable and overhead lines, transformer stations, including telecommunications technology equipment and MV and LV cable lines.

The construction activity conducted by ZUE is expanded to enable the Company to deliver, based on its own skills and resources, reinforced concrete projects such as viaducts, bridges, culverts, resistance walls or sound barriers.

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

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

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

The operating segments' financial data has been presented in note 4.9.

1.5. Functional and reporting currency

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

2. Operating information

2.1. Sales markets

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

The construction activity of ZUE is conducted mainly on the urban and rail infrastructure market. The table below sets out major construction contracts.

Contract *	Contracting authority	Project status	Contract net value (PLNm) attributable to ZUE
Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow and additional contract.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	In progress.	60.1
Maintenance and repair of tram infrastructure in Cracow in the period 2015-2018.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	In progress.	42.9
Completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF).	PKP PLK S.A.	In progress.	233.0
Construction works on the line no. 95 of the Kościelniki – Podłęże section.	PKP PLK S.A.	In progress.	24.9

(PLN '000, unless otherwise provided)

Provision of design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: "Investment project at the Medyka - Mościska II border crossing."	PKP PLK S.A.	In progress.	48.3
Modernisation of E30 railway line Kraków Medyka, the Biadoliny – Tarnów section.	OHL ZS, a.s. S. A. Polish branch	In progress.	45.6
Provision of design services and completion of construction works in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of 2014 Infrastructure and Environment Operational Programme (IEOP)."	PKP PLK S.A.	In progress.	124.5
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 Gołąbki/Warszawa Zachodnia – Warszawa Gdańska section)."	PKP PLK S.A.	In progress.	52.7
Provision of design services and completion of works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola."	PKP PLK S.A.	In progress.	281.0
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.	PKP PLK S.A.	In progress.	71.9
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."	PKP PLK S.A.	In progress.	209.5
Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the following project: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section."	PKP PLK S.A.	In progress.	371.6
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."	PKP PLK S.A.	In progress.	79.8
Modernisation of OCL network, B1.G Krzewie - Kłodawa section (140,000-155,000) – works in the area of the Kutno Local Traffic Control Centre (LCS).	Budimex S.A.	In progress.	32.9

Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	In progress.	16.3
Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section, Infrastructure and Environment Operational Programme (*POIiŚ*) 5.1-12.	PKP PLK S.A.	In progress.	303.1
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.	PKP PLK S.A.	In progress.	378.8
Construction of transport hub – the Zawodzie hub as part of the following project: "Katowice System of Integrated Transport Hubs – the Zawodzie hub."	Tramwaje Śląskie S.A.	In progress.	27.6
Sustainable city transport in Gorzów Wlkp. – Reconstruction of tracks in the Walczaka Street.	The City of Gorzów Wielkopolski	In progress.	15.0
Design services and construction works in connection with the following project: "Construction of the Czarnca - Włoszczowa Płn. railway line no. 582."	PKP PLK S.A.	In progress.	40.2
Design and construction services in connection with the project no. 1: "Works on the Chabówka - Zakopane railway line no. 99" and the project no. 2: "Construction of railway link in Chabówka along the Sucha Beskidzka – Chabówka railway line no. 98 and the Chabówka – Zakopane railway line no. 99."	PKP PLK S.A.	In progress.	330.1

* Contracts whose net value exceeds PLN 10m.

Design services provided by BPK Poznań and related 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, MZK Bydgoszcz, Tramwaje Warszawskie Sp. z o.o., PGE Dystrybucja S.A. Rzeszów Branch, PGE Dystrybucja S.A. Zamość Branch.

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

2.2. Backlog

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

At this report preparation date, the net value of the contracted construction and assembly services is PLN 2,316m and provides the Group with an ability to carry out the works in the period 2018-2021. As for design services, the net value of the signed contracts scheduled for performance in 2018-2020 is PLN 8m. The backlog relating to the supply of materials and equipment in 2018 is worth PLN 20m (net).

The value of the signed construction contracts in 2018 is about PLN 387m.

At this report preparation date, ZUE has submitted the most economically advantageous tenders in connection with the following tender procedures:

Project	Net value of ZUE's tender [PLN m]
"Reconstruction of the tramway from Lecha estate to Żegrze roundabout (section II)."*	82.6

(PLN '000, unless otherwise provided)

Reconstruction of rail transport infrastructure in Bydgoszcz along the Wojska Polskiego Street from Magnuszewska terminus to Wojska Polskiego, Szpitalna, Szarych Szeregów and Bełzy transport hub.*	52.8
Reconstruction of tram tracks and construction of bicycle lanes along the Toruńska Street in Bydgoszcz.*	95.7
Construction of graduation tower and salt cavern in Bochnia.	7.8
TOTAL	**238.9**

* *The value of the submitted tender exceeds the budget of the Contracting Authority.*

Regardless of this, the Issuer participates in tender procedures for the total estimated value of approx. PLN 5.9bn.

Since the tender procedures have started, the Group's development prospects in 2018 are assessed by the Company's Management Board as good. The Group companies participate in tenders both in Poland and abroad. The Group is interested in winning contracts mainly on the EU markets.

2.3. Issuer's major achievements or failures

The year-on-year increase in revenue reported in the first quarter of 2018 (by 271% for the Parent Company and by 280% for the Capital Group) reflects the increase in sales under contracts won mainly in 2017 whose performance has begun.

By this report preparation date, no major events occurred other than the events described in detail in section 2.4. below.

2.4. Major events in the reporting period

Construction works:

On 14 February 2018, the Company learnt about the conclusion by the other party of the construction agreement (the "Agreement") between the Company and the consortium of FIMA Polska sp. z o.o. of Warsaw and UAB FIMA of Vilnius (the "Subcontractor"). The Agreement dealt with the construction works performed by the Subcontractor on the Trzebinia - Oświęcim section (the "Contract"). The Company informed about the Contract in the current report 63/2017 of 2 October 2017. The Agreement net value: PLN 29.5m. The Agreement completion date was the same as the Contract completion date. **(Current report 2/2018)**

On 19 March 2018, the Company and PKP PLK signed the contract concerning the following project: 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 informed about the selection of the Company's tender as the most economically advantageous offer in the current report 78/2017. The Contract net value: PLN 330m. The Contract gross value: PLN 406m. Project completion date: 42 months of the Contract conclusion date. **(Current report 5/2018)**

On 21 March 2018, the Agreement was entered into between the Company and INTOP Tarnobrzeg sp. z o.o. (the "Subcontractor"). The Agreement dealt with the provision of design and construction services by the Subcontractor to the Company in connection with the Company's performance of the contract in the Skarżysko Kamienna – Sandomierz section. The Agreement net value: PLN 28.1m. The Agreement completion date was the same as the Contract completion date. **(Current report 6/2018)**

On 23 March 2018, the Company received the signed Agreement between the Company and PKP Energetyka S.A. (the "Subcontractor"). The Agreement dealt with the provision of construction services by the Subcontractor to the Company in connection with the Company's performance of the contract in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Bałogi section. The Agreement net value: PLN 22.9m. The Agreement completion date: September 2020. **(Current report 7/2018)**

Financial events:

On 15 February 2018, the Company published preliminary financial results for 2017. **(Current report 3/2018)**

Corporate events:

On 15 March 2018, the Company's Supervisory Board passed a resolution concerning the cooperation with auditor. **(Current report 4/2018)**

2.5. Major events after the end of the reporting period

On 18 April 2018, the Agreement was entered into between the Company and Kolejowe Zakłady Automatyki S.A. (the "Subcontractor"). The Agreement dealt with the provision of construction services by the Subcontractor to the Company in connection with the Company's performance of the contract in the Skarżysko Kamienna – Sandomierz area. The Agreement net value: PLN 88.3m. The Agreement completion date: January 2021. **(Current report 8/2018)**

On 24 April 2018, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit of the Company for the financial year 2017 of PLN 0.8m to reserve funds. **(Current report 9/2018)**

On 8 May 2018, the Company learnt about the Company's submission of the most economically advantageous tender in the tender procedure for the Poznań project named: "Reconstruction of the tramway from Lecha estate to Żegrze roundabout (section II)." The tender net value: PLN 82.6m. The tender gross value: PLN 101.5m. Completion date: 14 months. (**Current report 10/2018**)

On 9 May 2018, the Company learnt about the Company's submission of the most economically advantageous tender in the tender procedure for the Bydgoszcz project named: "Reconstruction of rail transport infrastructure along the Wojska Polskiego Street from Magnuszewska terminus to Wojska Polskiego, Szpitalna, Szarych Szeregów and Bełzy transport hub." The tender net value: PLN 52.8m. The tender gross value: PLN 65m. Completion date: Mid-October 2019. (**Current report 11/2018**)

On 9 May 2018, the Company published preliminary financial results for the first quarter of 2018. **(Current report 14/2018**)

On 14 May 2018, the Company learnt about the Company's submission of the most economically advantageous tender in the tender procedure for the Bydgoszcz project named: "Reconstruction of tram tracks and construction of bicycle lanes along the Toruńska Street in Bydgoszcz." The tender net value: PLN 95.7m. The tender gross value: PLN 117.7m. Completion date: September 2020. (**Current report 15/2018**)

On 16 May 2018, the Company's Supervisory Board gave a favourable opinion on the Management Board's proposal whereby the entire net profit for the financial year 2017 of PLN 0.8m would be allocated reserve funds. **(Current report 16/2018)**

On 22 May 2018, the Company received a signed copy of the agreement with PKP PLK for design and construction services relating to comprehensive replacement of OCL network on the railway line no. 146 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 services specified in the agreement are provided in addition to the contract performed by the Company in the Wyczerpy – Chorzew Siemkowice area. The Company informed about the contract conclusion in the current report 38/2017. The agreement net value: PLN 35.5m. The agreement gross value: PLN 43.7m. Completion date: March 2020. **(Current report 17/2018)**

2.6. 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 Group's counterparties to secure their claims against the Group. There were no bonds provided directly by the Group as at 31 March 2018. Banks and insurance companies have recourse against the Company.

The value of unused bond lines at the end of the first quarter of 2018 for the Group is PLN 341,997 thousand (including credit limits of PLN 75,000 thousand).

The value of unused bond lines at the end of the first quarter of 2018 for ZUE is PLN 340,750 thousand (including credit limits of PLN 75,000 thousand).

After the end of the reporting period, the Company signed another annex to the credit agreement with mBank SA whereby the limit was raised to PLN 10,000 thousand and the term was extended by one year. BPK Poznań signed the working credit facility agreement to prefinance the new contract of PLN 2,000 thousand.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the guarantees as at 31 March 2018 is PLN 18,430 thousand.

Since the limits granted to ZUE by the banks may be used by the Company for both bank guarantees and revolving credit facility, the limits are allocated at the end of the reporting period for the guarantees.

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

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

● **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.

- **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.
● **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.

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

No unusual factors or events occurred in the reporting period.

2.9. Risks believed by the Group to have an influence on its future performance

- **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. Another factor with an influence on financial liquidity may include the split payment mechanism effective from July 2018. A use of split payment by the buyers may limit the financial liquidity of the sellers because they will not be able to freely use the amounts kept on a VAT account.

- **Risk related to greater employment costs**

Given the changeable economic conditions, the Group's aspirations for constant development, raising the quality of the provided services and insufficient number of employees practicing the professions which require proper licences, skills and experience, the costs of employment may grow and influence the financial results of both ZUE and the entire Group. To reduce the risk, the Issuer undertakes the activities aimed at strengthening the relations with the Group's employees by offering benefits other than salaries and wages and providing opportunities for personal development at the Group.

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

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

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

A risk of inaccurate estimate of contract costs may occur in the case of flat-rate services necessary to 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 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 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.

- **Risk related to weather conditions**

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

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

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

- **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 influence on natural environment**

The activities conducted by the Group companies require them to observe a number of environmental protection rules relating, *inter alia*, to emissions into the air, waste management, impact on groundwater or protection of flora and fauna in the project execution areas. These rules are imposed by both the common law and individual requirements of investors involved in certain projects. The Issues takes measures to ensure full compliance with particular requirements by observing internal instructions and procedures included in the environment-related Integrated Management System.

- **Risk related to social issues and human rights**

A dispute may occur between the Issuer and the society (especially local communities) concerning a negative influence of the Issuer's operations or the violation of laws on the protection of human rights in the chain of supplies including the Group. Apart from financial consequences, if any, the dispute may result in serious damage of the Issuer's image which could have an impact on the Issuer's future relations with contracting authorities; i.e. entities which use public funds. Accordingly, activities are undertaken by the Group to eliminate, reasonably restrict or promptly remove the consequences of any negative influence. In addition, the conduct of activities with respect for human rights is the issue of key importance to the Group.

- **Risk related to corruption**

Sales and purchases are the areas at special risk of corruption. In addition, a considerable part of revenue generated by the Group comes from public funds. Therefore, the Issuer's cooperation with its major customers requires a special focus and transparency. Section 18 of the report deals with detailed solutions used by the Issuer to reduce the risk of corruption.

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.

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

Construction and assembly operations are marked by the seasonality of production and sales. The main factors with a bearing on revenue and profit in a financial year include weather conditions and the dates of putting contracts out for tender and awarding contracts. The number and size of tenders on the rail market are determined by the National Railway Programme and the EU perspective for the years 2018-2021. Projects on the urban market depend on the budgetary objectives of local self-governments.

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

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

2.11. Strategic objectives

The main strategic objective in 2018-2021 is to take a maximum advantage of the current EU perspective.

The Group's strategic objectives include:

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

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

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

Prospects of the markets the Group 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 performed by the Company are railway contracts. ZUE continues its activities aimed at the expansion of the backlog on this market. After it has considered the plans set out in the National Railway Programme and the plans following the execution of the said Programme, the Group believes that the rail infrastructure construction market enjoys broad prospects in the forthcoming years.

Urban infrastructure market

2018 witnesses a recovery in announcing tenders for urban infrastructure construction projects. The Company believes that this trend will continue in 2018 and a big number of tenders will be announced for major projects on the urban market, which have been included in the long-term plans concerning the extension of tram networks.

Power infrastructure market

The Group is not currently focusing on this market. The market, however, is observed by the Group.

(PLN '000, unless otherwise provided)

3. Corporate information

3.1. Governing bodies of ZUE

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

Management Board:

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

Supervisory Board:

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

Audit Committee:

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

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

3.2. Share capital structure

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

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

3.3. Treasury shares

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

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

(PLN '000, unless otherwise provided)

3.4. Shareholding structure

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

Shareholder	Number of shares/votes at 22 May 2018	% of share capital/total number of votes	Number of shares/votes at the publication of the last interim report*	% of 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**

** Publication of the last interim report (Consolidated and separate annual report of ZUE S.A. for 2017): 20 March 2018.*

*** 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.*

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

Person	Position	Number of shares/votes at 22 May 2018	% of share capital/total number of votes	Changes in shareholding since the publication of the last interim report; i.e. 20 March 2018
Wiesław Nowak	Management Board President	14,400,320	62.53	None
Marcin Wiśniewski	Management Board Vice-President	2,300	0.01	None
Jerzy Czeremuga	Management Board Vice-President	136	< 0.01	None
Maciej Nowak	Management Board Vice-President	7,806	0.03	None
Michał Lis	Supervisory Board Member	661	< 0.01	None

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

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

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

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

(PLN '000, unless otherwise provided)

3.7. Issue and redemption of debt and equity securities

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

3.8. Dividend

On 24 April 2018, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit of the Company for the financial year 2017 of PLN 839 thousand to reserve funds.

The Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations.

4. Financial information

4.1. Discussion of financial results

Discussion of major items of the statement of profit or loss

The revenue generated by the Group in the first quarter of 2018 was PLN 125,903 thousand. The revenue increased by 280% compared to the revenue reported in the analogous period of 2017. It resulted, *inter alia*, from gradual increase in sales under the contracts whose performance slowly began. The revenue generated by ZUE in the first quarter of 2018 stood at PLN 112,613 thousand (up by 271% compared to Q1 2017). The impressive year-on-year increase in revenue reported for the first quarter of 2018 reflects the growth trends observed already in the third and fourth quarter of 2017. Although activities conducted in the first quarter of a year usually generate the lowest profit, the Group's revenue in the reporting period grew almost three times when compared with the analogous period of 2017.

The Group's gross profit in the first three months of 2018 grew by PLN 6,610 thousand when compared with the analogous period of 2017; i.e. from PLN (-) 3,069 thousand at the end of Q1 2017 to PLN 3,541 thousand at the end of Q1 2018. The gross profit reported by ZUE grew by PLN 5,805 thousand; i.e. from PLN (-) 3,363 thousand at the end of Q1 2017 to PLN 2,442 thousand at the end of Q1 2018.

The Group's operating profit in the period under analysis increased year over year by PLN 6,863 thousand (ZUE: PLN 6,029 thousand) from PLN (-) 9,198 thousand (ZUE: PLN – 8,298 thousand) to at the end of Q1 2017 to PLN (-) 2,335 thousand (ZUE: PLN -2,269 thousand) at the end of Q1 2018.

The contracts won mainly in 2017 are performed successively in 2018. However, the performance of certain contracts is still at an initial stage and will influence the results/revenue reported by the Group in subsequent reporting periods.

In 2018, the Company takes a selective approach to tenders on both urban and railway infrastructure market. When it prepares a tender, it considers, *inter alia*, the benefits of location and potential margins.

The Group's net loss decreased year-on-year by PLN 6,278 thousand (by PLN 5,331 thousand for ZUE) from PLN (-) 8,168 thousand (PLN -7,023 thousand for ZUE) at the end of the first quarter of 2017 to PLN (-) 1,890 thousand (PLN -1,692 thousand for ZUE) as at 31 March 2018.

Comparison of the results reported by the Group and ZUE:

Item	ZUE Group		ZUE	
	31-03-2018	31-03-2017	31-03-2018	31-03-2017
Revenue	125,903	33,167	112,613	30,383
Gross profit (loss)	3,541	-3,069	2,442	-3,363
EBIT	-2,335	-9,198	-2,269	-8,298
EBITDA*	210	-6,821	237	-5,958
Pre-tax profit (loss)	-2,280	-9,616	-2,021	-8,550
Net profit (loss)	-1,890	-8,168	-1,692	-7,023

* Operating profit + depreciation / amortisation.

General and administrative expenses of the Group in the period 1 January - 31 March 2018 stood at PLN 5,221 thousand and decreased year-on-year by 6%. General and administrative expenses of ZUE in the period under analysis amounted to PLN 4,256 thousand and decreased by 2% when compared with the analogous figure of 2017.

(PLN '000, unless otherwise provided)

Other operating income reported by the Group in the first quarter of 2018 was PLN 721 thousand and decreased over the year by 9%. Other operating income of PLN 619 thousand reported by the Company decreased by 11% when compared with the analogous period of 2017. The items are presented in detail in the note 4.3.3.

Other operating expenses of the Group amounted to PLN 1,376 thousand – a year-on-year increase by 1%. Other operating expenses reported by ZUE stood at PLN 1,074 thousand and decreased over the year by 17%. Details are set out in the note 4.3.4.

The Group reported the financial income to the tune of PLN 383 thousand (year-over-year decrease by 34%). ZUE's financial income amounted to PLN 414 thousand and fell by 34% when compared with the analogous item reported in Q1 2017. The items are presented in detail in the note 4.3.5.

The Group's financial expenses during the quarter in question amounted to PLN 328 thousand and were lower by 67% than the amount disclosed in the first quarter of 2017. ZUE's financial expenses stood at PLN 166 thousand and decreased by 81% compared to Q1 2017. The items are presented in detail in the note 4.3.6.

Discussion of major items of the statement of financial position

At 31 March 2017, the Group's total assets and liabilities stood at PLN 449,491 thousand and the Company's total assets and liabilities amounted to PLN 420,570 thousand.

Items with the biggest influence on the Group's total assets and liabilities:

Item	**Change when compared with 31-12-2017**	**Balance at 31-03-2018**	**Description**
Assets			
Property, plant and equipment	6,877	101,900	Increase resulting from investments in machinery and vehicles (e.g. pile driver or wagons).
Inventories	17,764	45,702	Increase relating to greater demand for building materials in connection with the performance of contracts.
Trade and other receivables	7,733	199,881	Greater work progress under new contracts.
Cash and cash equivalents	-84,804	32,944	Use of funds to conduct operating activities.
Equity and liabilities			
Trade and other payables	-53,282	171,004	Liabilities resulting from the purchase of materials in connection with increases sales observed at the end of 2017.
Loans and bank credits and other financing sources	3,729	29,861	Conclusion of new leases.

Discussion of items of the statement of cash flows

The Group's flows from operating activities of PLN (-) 76,108 thousand were mainly influenced by changes in payables, retentions, receivables and inventories in connection with another stage of performance of subsequent contracts.
Cash flows from investing activities of PLN (-) 11,676 thousand were influenced, in particular, by the purchase of non-current assets (for instance wagons or piling station). The purchase was financed by own resources and by loan.
Cash flows from financing activities of PLN 2,926 thousand were mainly influenced by a decrease in lease obligations, the conclusion of leaseback for piling station and the use of credit lines.

	ZUE Group		**ZUE**	
	Period ended 31-03-	**Period ended 31-03-**	**Period ended 31-03-**	**Period ended 31-03-**

(PLN '000, unless otherwise provided)

	2018	2017	2018	2017
Cash flows from operating activities	-76,108	-31,022	-75,269	-29,430
Cash flows from investing activities	-11,676	11,247	-11,687	11,199
Cash flows from financing activities	2,926	-1,819	640	-2,572
Total net cash flows	**-84,858**	**-21,594**	**-86,316**	**-20,803**
Cash and cash equivalents at the beginning of the period	117,748	62,717	116,144	61,207
Cash and cash equivalents at the end of the period	32,944	40,312	29,882	39,599

Discussion of sales results reported by segments

The total amount of revenue generated by the Group in the first quarter of 2018 is PLN 125,903 thousand. The largest portion of the Group's revenue is derived from construction activity.

	Construction	Sales	Design	Exclusions	Total
Revenue	112,613	14,237	3,279	-4,226	125,903

Sales activities conducted at the Group by Railway gft saw a net profit of PLN 197 thousand (gross profit of PLN 778 thousand).

Design activities conducted by BPK Poznań in the first quarter of 2018 produced a gross profit of PLN 552 thousand and a net loss of PLN 198 thousand.

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

The Company did not publish any forecast 2018 financial results.

4.3. Notes to the statement of comprehensive income

4.3.1. Revenue

	Period ended 31-03-2018	Period ended 31-03-2017
Revenue from construction contracts	112,412	31,402
Revenue from the rendering of services	1,807	813
Revenue from the sale of goods and raw materials	11,684	952
Total	**125,903**	**33,167**

The Group's revenue in the period from 1 January to 31 March 2018 amounted to PLN 125,903 thousand and increased by 280% over the analogous figure reported in the analogous period of 2017.

The impressive year-on-year increase of revenue in the first quarter of 2018 is a result of the growth trends observed already in the third and fourth quarter of 2017 when the Group effectively took advantage of the opportunities offered by the new (mainly railway) contracts. This contributed to a significant increase in revenue.

Although activities conducted in the first quarter of a year usually generate the lowest profit, the Group's revenue in the reporting period grew almost three times when compared with the analogous period of 2017.

In the first quarter of 2018, the Group carried out works in the territory of Poland. In addition, ZUE generated revenue of PLN 90 thousand from the provision of equipment services in Slovakia.

(PLN '000, unless otherwise provided)

4.3.2. Operating expenses

	Period ended 31-03-2018	Period ended 31-03-2017
Change in products	-794	-355
Depreciation and amortization	2,545	2,377
Consumption of raw and other materials	66,815	6,394
Contracted services	23,357	4,620
Costs of employee benefits	20,001	14,596
Taxes and charges	397	399
Other expenses	2,200	3,349
Value of goods and materials sold	13,062	10,413
Total	**127,583**	**41,793**

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

	Period ended 31-03-2018	Period ended 31-03-2017
Cost of sales	122,362	36,236
General and administrative expenses	5,221	5,557
Total	**127,583**	**41,793**

The Group's general and administrative expenses between 1 January and 31 March 2018 stood at PLN 5,221 thousand and decreased by 6% when compared with the Group's general and administrative expenses in the first quarter of 2017.

Depreciation and amortisation

	Period ended 31-03-2018	Period ended 31-03-2017
Depreciation of property, plant and equipment	2,338	2,086
Amortisation of intangible assets	123	183
Depreciation of investments in real property	84	108
Total	**2,545**	**2,377**

(PLN '000, unless otherwise provided)

4.3.3. Other operating income

	Period ended 31-03-2018	Period ended 31-03-2017
Gain on disposal of assets	**6**	**102**
Gain on disposal of non-current assets	6	102
Other operating income	**715**	**694**
Re-invoicing of bonds and insurance policies	264	6
Damages and penalties	230	82
Release of write-downs of receivables	20	219
Refund of costs of court proceedings	78	48
Release of provisions for court cases	86	0
Release of allowances for inventories	10	4
Other	27	335
Total	**721**	**796**

4.3.4. Other operating expenses

	Period ended 31-03-2018	Period ended 31-03-2017
Loss on disposal of assets	**0**	**0**
Loss on disposal of non-current assets	0	0
Other operating expenses	**1,376**	**1,368**
Donations	8	1
Re-invoiced costs of bonds and insurance policies	264	6
Damages and penalties	650	39
Write-downs of receivables	359	1,258
Costs of litigation	34	2
Other	61	62
Total	**1,376**	**1,368**

4.3.5. Financial income

	Period ended 31-03-2018	Period ended 31-03-2017
Interest income	**203**	**357**
Interest on bank deposits	186	76
Interest on loans	17	0
Interest on receivables	0	281
Other financial income	**180**	**228**
Foreign exchange gains	26	0
Discount of long-term items	153	9
Realisation of financial instruments	0	217
Guarantees	0	1
Other	1	1
Total	**383**	**585**

(PLN '000, unless otherwise provided)

4.3.6. Financial expenses

	Period ended 31-03-2018	Period ended 31-03-2017
Interest expenses	**270**	**191**
Interest on credits	55	63
Interest on loans	2	2
Interest on finance lease liabilities	42	80
Interest on liabilities relating to financing of property, plant and equipment	110	40
Interest on trade and other payables	61	6
Other financial expenses	**58**	**812**
Loss on sale of investment	**0**	0
Foreign exchange losses	0	784
Discount of long-term items	47	7
Guarantees	0	1
Other	11	20
Total	**328**	**1,003**

4.3.7. Corporate income tax

Corporate income tax recognised in the statement of comprehensive income

	Period ended 31-03-2018	Period ended 31-03-2017
Current income tax	0	77
Deferred tax	-390	-1,525
Total tax expense/income	**-390**	**-1,448**

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

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

(PLN '000, unless otherwise provided)

Current income tax

	Period ended 31-03-2018	Period ended 31-03-2017
Gross profit (loss)	**-2,280**	**-9,616**
Difference between gross profit (loss) and income tax base:	-8,414	-2,162
- 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	-8,233	-2,162
- other differences (including loss brought forward)	-181	0
Income/loss	-10,694	-11,778
Income tax base	0	0
Income tax at the applicable rate of 19%	0	0
Income tax paid /(tax refund) on income earned abroad	0	77
Tax increases, waivers, exemptions, deductions and reductions	0	0
Adjustment of income tax for previous periods	0	0
Current income tax	**0**	**77**

Current tax assets and liabilities

	Balance at 31-03-2018	Balance at 31-12-2017
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	0	0

(PLN '000, unless otherwise provided)

Deferred tax balance

	Balance at 31-03-2018	Balance at 31-03-2017
Deferred tax balance at the beginning of the period	**8,024**	**8,683**
Temporary differences relating to deferred tax assets:	**31,175**	**14,705**
Provisions for expenses and accruals	11,594	7,923
Discount of receivables	368	256
Lease liabilities	199	128
Write-downs	1,505	1,859
Bonds and insurance settled over time	1,582	620
Tax work in progress	15,530	3,320
Valuation of long-term contracts	197	220
Other	200	379
Temporary differences relating to deferred tax liabilities:	**32,486**	**14,269**
Valuation of long-term contracts	22,916	4,852
Property, plant and equipment and intangible assets	9,103	9,030
Discount of payables	456	382
Other	11	5
Unused tax losses and other tax credits to be settled in future:	**9,725**	**9,772**
Tax losses	9,725	9,772
Tax credits	0	0
Other	0	0
Total temporary differences relating to deferred tax assets:	**40,900**	**24,477**
Total temporary differences relating to deferred tax liabilities:	**32,486**	**14,269**
Deferred tax balance at the end of the period	**8,414**	**10,208**
Change in deferred tax, including:	**390**	**1,525**
- recognised in income	390	1,525
- recognised in equity	0	0

(PLN '000, unless otherwise provided)

4.4. Contracts, retentions and provisions

4.4.1. Construction contracts

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

	Period ended 31-03-2018	Period ended 31-03-2017
Revenue from long-term construction contracts	107,462	28,586
Costs of long-term construction contracts	102,891	27,610
Gross profit (loss) on long-term contracts	**4,571**	**976**
Revenue from long-term construction contracts (cumulative)	642,743	372,532
Costs of long-term construction contracts (cumulative)	624,117	367,980
Gross profit (loss) on long-term contracts (cumulative)*	**18,626**	**4,552**

	Balance at 31-03-2018	Balance at 31-12-2017
Assets (selected items)	**143,197**	**98,878**
- Valuation of contracts	119,860	74,208
- Advance payments for contracts	12,741	10,256
- Retentions on construction contracts retained by customers	10,596	14,414
Liabilities (selected items)	**130,768**	**132,814**
- Valuation of contracts	308	724
- Provisions for contract costs	40,026	34,839
- Advance payments for contracts	69,509	75,128
- Retentions on construction contracts retained for suppliers	11,894	13,049
- Provisions for warranty claims	8,777	8,458
- Provisions on expected losses on contracts	254	616

* Gross profit (loss) on long-term construction contracts in progress at the end of the reporting period (cumulative).

4.4.2. Retentions on construction contracts

	Balance at 31-03-2018	Balance at 31-12-2017
Retained by customers – to be repaid after 12 months	10,047	9,696
Retained by customers – to be repaid within 12 months	549	4,718
Total retentions on construction contracts retained by customers	**10,596**	**14,414**
Retained for suppliers – to be repaid after 12 months	6,455	6,254
Retained for suppliers – to be repaid within 12 months	5,439	6,795
Total retentions on construction contracts retained for suppliers	**11,894**	**13,049**

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

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

(PLN '000, unless otherwise provided)

4.4.3. Provisions

Change in provisions

Provisions	01-01-2018	Created	Used	Released	Reclassified	31-03-2018	Item
Long-term provisions:	**7,644**	**496**	**35**	**101**	**45**	**8,049**	
Provisions for employee benefits	1,888	11	0	0	0	1,899	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,756	485	35	101	45	6,150	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	**14,427**	**3,514**	**4,811**	**408**	**-45**	**12,677**	
Provisions for employee benefits	10,893	3,502	4,710	1	0	9,684	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,702	12	29	13	-45	2,627	Short-term provisions
Provision for loss on contracts	616	0	0	362	0	254	Short-term provisions
Other provisions	216	0	72	32	0	112	Short-term provisions
Total provisions:	**22,071**	**4,010**	**4,846**	**509**	**0**	**20,726**	

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

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

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

4.5. Trade and other receivables and payables

4.5.1. Trade and other receivables

	Balance at 31-03-2018	Balance at 31-12-2017
Trade receivables	71,547	116,820
Write-downs of trade receivables	-14,541	-13,893
Receivables from the state budget other than corporate income tax	5,917	438
Receivables under contracts (valuation)	119,860	74,208
Advance payments	12,741	10,256
Other receivables	4,357	4,319
Total trade and other receivables	**199,881**	**192,148**

(PLN '000, unless otherwise provided)

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

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

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

Change in write-downs of trade receivables influencing the profit or loss includes the release of write-downs of PLN 20 thousand and the creation of write-downs of PLN 359 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by the Group for penalties and damages that are not the Company's revenue at the moment of issue.

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

	Balance at 31-03-2018
Counterparty A	27,914
Total	**27,914**

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

4.5.2. Trade and other payables

	Balance at 31-03-2018	Balance at 31-12-2017
Trade payables	58,244	96,216
Payables to the state budget other than corporate income tax	2,570	16,965
Accruals	40,258	35,110
Liabilities under contracts (valuation)	308	724
Other payables	115	143
Advance payments	69,509	75,128
Total trade and other payables	**171,004**	**224,286**

The items include:

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

(PLN '000, unless otherwise provided)

4.6. Debt and management of capital and liquidity

4.6.1. Loans and bank credits and other financing sources

	Balance at 31-03-2018	Balance at 31-12-2017
Long-term	**11,661**	**11,224**
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	8,278	7,714
Finance lease liabilities	3,383	3,510
Short-term	**18,200**	**14,908**
Bank credits	8,253	5,851
Received loans	252	250
Liabilities relating to financing of property, plant and equipment	7,466	6,680
Finance lease liabilities	2,229	2,127
Total	**29,861**	**26,132**

Liabilities relating to the financing of property, plant and equipment include leasebacks, including the agreement for the purchase of pile driver of PLN 3,326 thousand signed in the first quarter of 2018. For presentation purposes, leaseback has been named the agreement for financing of property, plant and equipment.

Note 6.1 of the consolidated financial statements for 2017 contains a detailed description of credit agreements. The following changes occurred in the first quarter of 2018:
- repayment of working credit facility for contract prefinancing with mBank;
- increase in the use of credits at the Group up to PLN 8,253 thousand;
- increase in the use of bonds at the Group up to PLN 132,864 thousand.

4.6.2. Capital management

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

	Balance at 31-03-2018	Balance at 31-12-2017
Long- and short-term loans and bank credits and other financing sources	29,861	26,132
Long- and short-term other financial liabilities	596	666
	30,457	**26,798**
Cash and cash equivalents	32,944	117,748
Net debt	**-2,487**	**-90,950**
Equity	207,529	209,419
Net debt to equity ratio	**-1.20%**	**-43.43%**

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

The Group disclosed negative net debt because the value of funds was greater than total debt at the end of the first quarter of 2018. The Group mainly uses own funds (especially ZUE's funds) and credit limits to finance day-to-day operations.

(PLN '000, unless otherwise provided)

4.6.3. Cash and cash equivalents

	Balance at 31-03-2018	Balance at 31-12-2017
Cash on hand and at banks	26,944	106,748
Bank deposits up to three months	6,000	11,000
Total	**32,944**	**117,748**

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

Discussion of items of the statement of cash flows

The Group's cash flows from operating activities of PLN (-) 76,108 thousand were mainly influenced by changes in retentions, payables and receivables and inventories in connection with the performance of another stage of certain contracts.

The Group's cash flows from investing activities of PLN (-) 11,676 thousand were mainly influenced by the purchase of non-current assets (wagons or pile driver) and loans granted to the company.

The Group's cash flows from financing activities of PLN 2,926 thousand were mainly influenced by a decrease in lease obligations, the conclusion of leaseback for pile driver and the use of credit lines.

	Period ended 31-03-2018	Period ended 31-03-2017
Cash flows from operating activities	-76,108	-31,022
Cash flows from investing activities	-11,676	11,247
Cash flows from financing activities	2,926	-1,819
Total net cash flows	**-84,858**	**-21,594**
Cash and cash equivalents at the beginning of the period	117,748	62,717
Cash and cash equivalents at the end of the period	32,944	40,312

(PLN '000, unless otherwise provided)

4.7. Notes to the financial statements

4.7.1. Property, plant and equipment

Property, plant and equipment		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Gross value	**1 January 2018**	**0**	**26,162**	**46,839**	**67,387**	**2,271**	**142,659**	**3,202**	**3,705**	**149,566**
Additions		0	0	3,382	9,960	0	**13,342**	8,895	0	**22,237**
Transfer to non-current assets		0	0	0	0	0	**0**	11,876	961	**12,837**
Sale/liquidation		0	0	538	0	62	**600**	0	0	**600**
Balance at	**31 March 2018**	**0**	**26,162**	**49,683**	**77,347**	**2,209**	**155,401**	**221**	**2,744**	**158,366**

Depreciation		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at	**1 January 2018**	**0**	**7,768**	**21,513**	**23,408**	**1,854**	**54,543**	**0**	**0**	**54,543**
Elimination on disposal of assets		0	0	353	0	62	**415**	0	0	**415**
Depreciation expense		0	238	757	1,309	34	**2,338**	0	0	**2,338**
Balance at	**31 March 2018**	**0**	**8,006**	**21,917**	**24,717**	**1,826**	**56,466**	**0**	**0**	**56,466**
Carrying amount										
Balance at	**1 January 2018**	**0**	**18,394**	**25,326**	**43,979**	**417**	**88,116**	**3,202**	**3,705**	**95,023**
Balance at	**31 March 2018**	**0**	**18,156**	**27,766**	**52,630**	**383**	**98,935**	**221**	**2,744**	**101,900**

(PLN '000, unless otherwise provided)

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

Assets pledged as security

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

4.7.2. Investment property

Gross value		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	**1 January 2018**	**126**	**4,251**	**4,582**	**0**	**0**	**0**	**8,959**
Additions		0	0	11	0	0	0	11
Impairment		0	0	0	0	0	0	0
Sale/liquidation		0	0	0	0	0	0	0
Balance at	**31 March 2018**	**126**	**4,251**	**4,593**	**0**	**0**	**0**	**8,970**

Depreciation		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	**1 January 2018**	**0**	**1,490**	**1,878**	**0**	**0**	**0**	**3,368**
Elimination on disposal of assets		0	0	0	0	0	0	0
Depreciation expense		0	41	43	0	0	0	84
Balance at	**31 March 2018**	**0**	**1,531**	**1,921**	**0**	**0**	**0**	**3,452**
Carrying amount								
Balance at	**1 January 2018**	**126**	**2,761**	**2,704**	**0**	**0**	**0**	**5,591**
Balance at	**31 March 2018**	**126**	**2,720**	**2,672**	**0**	**0**	**0**	**5,518**

At 31 March 2018, investment property included the real property in Kościelisko (plots no. 2001 and 2491). The investment property includes land with buildings erected thereon and leasehold estate.

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

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

(PLN '000, unless otl

4.7.3. Goodwill

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

The goodwill of PRK is assigned in full to the construction segment.

The goodwill of BPK Poznań is a result of the purchase of 830 shares in BPK Poznań and the control gained on 2012.
The acquisition of BPK Poznań was settled on the basis of the data contained in the separate financial statements of BPK Poznań as at 31 March 2012 and was recognised for the first time in the Financial Statements of the Capital Group in 2012.

At cost	Balance at 31-03-2018	Balance at 31-12-2017
Goodwill of PRK	31,172	31,172
Goodwill of BPK Poznań	1,474	1,474
Impairment losses (BPK Poznań)	-1,474	-1,474
Balance at the end of the reporting period	**31,172**	**31,172**

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.

4.7.4. Investments in non-current assets

The total capital expenditure incurred by the Group in the reporting period amounted to PLN 9,442 thousand.

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

Item:	Own funds	Finance lease	Leaseback	Total
Intangible assets, including:	**32**	**0**	**0**	**32**
- leasehold land	0	0	0	0
Property, plant and equipment, including:	**5,531**	**542**	**3,326**	**9,399**
- buildings and structures	0	0	0	0
- plant and equipment	3,382	0	3,326	6,708
- vehicles	9,527	433	0	9,960
- other	0	0	0	0
- non-current assets under construction	8,785	109	0	8,894
- settlement of non-current assets under construction for ongoing investments	-11,876	0	0	-11,876
- leaseback	-3,326	0	0	-3,326
- settlement of advance payment from prior period for ongoing investments	-961	0	0	-961
Investment property	**11**	**0**	**0**	**11**
Equity investments	**0**	**0**	**0**	**0**
Total investments	**5,574**	**542**	**3,326**	**9,442**

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

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- Purchase of 35 EAOS wagons worth PLN 4,621 thousand.
- Purchase of 40 Smmps wagons worth PLN 3,935 thousand.
- Complete overhauls of machines and vehicles in the total amount of PLN 971 thousand.
- Purchase of cars for PLN 542 thousand (lease).
- Purchase of PV 15RPR pile driver of PLN 3,326 thousand (lease).

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

In the first quarter of 2018, the Group entered into a lease contract for PV 15RPR pile driver of PLN 3,326 thousand and a lease contract for cars of PLN 542 thousand. The pile driver was initially financed by own resources (leaseback).

The amount recognized in the statement of cash flows is the purchase of PLN 9,102 thousand. The difference is a result of actual payments made after the end of the reporting period and leaseback.

4.7.5. Advanced loans

	Balance at 31-03-2018	Balance at 31-12-2017
Loans advanced to related entities	66	66
Loans advanced to other entities	3,496	279
Impairment losses	-335	-335
Total	**3,227**	**10**

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

4.7.6. Inventories

	Balance at 31-03-2018	Balance at 31-12-2017
Goods, materials and raw materials	44,332	27,405
Work in progress	1,171	334
Finished goods	199	199
Total	**45,702**	**27,938**

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

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4.7.7. Financial instruments

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

Balance at 31 March 2018

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through:		Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
		Profit or loss	Other comprehensive income		
Retentions on construction contracts (before discount)	12,839	0	0	0	12,909
Trade receivables	71,547	0	0	0	0
Receivables from the state budget other than corporate income tax	5,917	0	0	0	0
Other financial liabilities	0	0	0	0	596
Advanced loans	3,227	0	0	0	0
Cash and cash equivalents	32,944	0	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	29,861
Trade payables	0	0	0	0	58,244
Payables to the state budget other than corporate income tax	0	0	0	0	2,570
Total	**126,474**	**0**	**0**	**0**	**104,180**

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

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4.7.8. Transactions with related entities

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

	Receivables		Payables	
	Balance at		Balance at	
	31-03-2018	31-12-2017	31-03-2018	31-12-2017
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	**0**	**0**	**0**	**0**

	Revenue		Purchases	
	Period ended		Period ended	
	31-03-2018	31-03-2017	31-03-2018	31-03-2017
RTI	1	1	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	468
Total	**1**	**1**	**0**	**468**

	Advanced loans		Financial income (interest)	
	Balance at		Period ended	
	31-03-2018	31-12-2017	31-03-2018	31-03-2017
RTI	10	10	0	0
RTI Germany	56	56	0	0
Wiesław Nowak	0	0	0	0
Total	**66**	**66**	**0**	**0**

	Received loans		Financial expenses (interest)	
	Balance at		Period ended	
	31-03-2018	31-12-2017	31-03-2018	31-03-2017
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, all transactions were entered into between ZUE and subsidiaries, and the related entities on arm's length terms.

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

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

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

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

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 51,774 thousand; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 284 thousand and the total value of the proceedings concerning claims is PLN 51,490 thousand.
The pending court proceedings are related to the companies' operating activities.

The biggest court proceedings concerning claims:

<u>Cases concerning the following project: *"Modernisation of the railway line no. 8, construction of the Okęcie airport siding."*</u>

On 14 August 2014, the Petitioner (BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) filed a lawsuit against the Defendant (PKP Polskie Linie Kolejowe S.A.). The Petitioner sued the Defendant for the contractual penalty of PLN 72,835,010.99 plus interest from 18 August 2012 until payment (with PLN 18,521,943.30 plus interest from 18 August 2012 until payment attributable to the Company) for the Defendant's delay in the handover of the Construction Site. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POIiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding." Under the Contract, the Contracting Authority was obliged to provide the Contractor with an access to the entire construction site and the right to use it on the dates as specified in an appendix to the Contract. In case of delay through the fault of the Contracting Authority, the Contractor was authorised to charge the contractual penalties for each day of delay at the rate as specified in an appendix to the Contract. The Contractual 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. POIiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

<u>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."</u>

On 30 December 2016, the consortium of:

1) OHL ŹS, a.s. (Leader);

2) Swietelsky Baugesellschaft m.b.H;

3) ZUE S.A. (hereinafter referred to as the "Consortium" or the "Contractor")

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

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

1) PLN 1.2m – costs relating to the requirement to extend the performance bond and insurance provided by the Contractor; and

2) PLN 38.1m – fixed costs relating to the performance of works over the extended period.

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

4.7.10. Contingent assets and contingent liabilities

Contingent assets

	Balance at 31-03-2018	Balance at 31-12-2017
Bonds	39,451	36,949
Guarantees	55	54
Bills of exchange	8,289	5,066
Total	**47,795**	**42,069**

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

Contingent liabilities

	As at 31-03-2018	As at 31-12-2017
Bonds	511,750	485,785
Guarantees	18,430	17,044
Bills of exchange	333,776	339,382
Mortgages	54,259	54,259
Pledges	18,740	17,048
Total	**936,955**	**913,518**

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

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

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

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

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

4.8. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the three months ended 31 March 2018 or the three months ended 31 March 2017.

4.9. Operating segments

The Group's reporting is based on operating segments. Given the development of design and sales activities, the Management Board of ZUE identified the three aggregate operating segments to enable a proper assessment of the type and financial consequences of the Group's operations as required by the IFRS 8:

- Construction;
- Design; and
- Sales.

The segments jointly meet the following rules:

- Their aggregation is consistent with the objectives and principles of the IFRS 8;
- They have similar economic characteristics;
- They are similar in the following areas: the nature of the products and services, the nature of the production process, the class and type of clients and the methods used to distribute products and services.

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

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

The construction activities are also supplemented by the sale of materials required to build and repair tracks. This segment includes the activities conducted by Railway gft.

The accounting policies applied to the segments are the same as the principles presented in the description of significant accounting policies. Like transactions with third parties, sales and transfer transactions between segments are settled by the Group based on current market prices.

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Reporting segments results for the first quarter of 2018:

	Construction	Sales	Design	Exclusions	Total
Revenue	**112,613**	**14,237**	**3,279**	**-4,226**	**125,903**
including:					
Inter-segment revenues	130	2,619	2,007	-4,756	0
Revenue from external customers, including:	112,483	11,618	1,272	530	125,903
Revenue from construction contracts	110,740	0	3,279	-1,607	112,412
Revenue from the rendering of services	1,664	143	0	0	1,807
Revenue from the sale of goods and raw materials	209	14,094	0	-2,619	11,684
Gross profit	**2,442**	**778**	**552**	**-231**	**3,541**
Financial income / expenses	248	-118	-86	11	55
Interest received	213	0	0	-20	193
Interest paid	-151	-54	-2	0	-207
Pre-tax profit	**-2,021**	**182**	**-198**	**-243**	**-2,280**
Corporate income tax	-329	-15	0	-46	-390
Net profit	**-1,692**	**197**	**-198**	**-197**	**-1,890**
Depreciation and amortisation	2,506	1	40	-2	2,545
Property, plant and equipment	98,930	4	156	2,810	101,900
Non-current assets	165,477	237	834	-531	166,017
Total assets	**420,570**	**22,287**	**14,006**	**-7,372**	**449,491**
Total liabilities	**211,896**	**22,389**	**13,990**	**-6,313**	**241,962**

In the first quarter of 2018, the Group operated in the territory of Poland. In addition, ZUE earned revenue of PLN 90 thousand from the provision of equipment services in Slovakia.

Reporting segments results for the first quarter of 2017:

	Construction	Sales	Design	Exclusions	Total
Revenue	**30,383**	**11,308**	**2,072**	**-10,596**	**33,167**
including:					
Inter-segment revenues	117	10,437	105	-10,659	0
Revenue from external customers, including:	30,266	871	1,967	63	33,167
Revenue from construction contracts	29,489	0	2,072	-159	31,402
Revenue from the rendering of services	750	63	0	0	813
Revenue from the sale of goods and raw materials	144	11,245	0	-10,437	952
Gross profit	**-3,363**	**75**	**197**	**22**	**-3,069**
Financial income / expenses	-252	-139	-27	0	-418
Interest received	75	0	0	0	75
Interest paid	-119	-62	-1	0	-182
Pre-tax profit	**-8,550**	**-722**	**-360**	**16**	**-9,616**
Corporate income tax	-1,527	11	65	3	-1,448
Net profit	**-7,023**	**-733**	**-425**	**13**	**-8,168**
Depreciation and amortisation	2,340	21	25	-9	2,377
Property, plant and equipment	84,643	0	169	2,936	87,748

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Non-current assets	147,789	283	1,045	-940	148,177
Total assets	**306,425**	**17,808**	**8,286**	**-10,877**	**321,642**
Total liabilities	**103,825**	**18,553**	**8,639**	**-10,489**	**120,528**

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

Concentration of revenues that exceed 10% of total revenue:

	Balance at 31-03-2018
Counterparty A	52,697

4.10. Other notes to the financial statements

4.10.1. Use of International Financial Reporting Standards

Statement of compliance

The condensed consolidated financial statements have been drawn up in accordance with IAS 34 as at 31 March 2018 as endorsed by the European Union (EU).

The quarterly consolidated financial statements for the three months ended 31 March 2018 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

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

- **IFRS 9 "Financial Instruments"** – endorsed in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – endorsed in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts" –** Use of **IFRS 9 "Financial Instruments"** in conjunction with **IFRS 4 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2018 or the moment IFRS 9 "Financial Instruments" are used for the first time);
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures" –** a part of "**Amendments Resulting from Review of IFRS 2014-2016"** (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 1 "Use of International Financial Reporting Standards for the first time" –** a part of "**Amendments Resulting from Review of IFRS 2014-2016"** (effective for annual periods beginning on or after 1 January 2018);
- **Interpretation of IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 40 "Investment Property" –** Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).

Standards and interpretations published by the EU but not yet effective

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

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019).

Standards and interpretations adopted by the IASB but not yet endorsed by the EU

The International Financial Reporting Standards (IFRS) as endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) excluding the following new standards and amendments to the standards not yet approved for use in the EU at the date of preparation of this report:

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 9 "Financial Instruments" –** "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"** (the effective date has been deferred by the IASB indefinitely);
- **Amendments Resulting from Review of IFRS 2015-2017** (effective for annual periods beginning on or after 1 January 2019);
- **Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019);
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016).

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

4.10.2. 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 the 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

Except for the following changes, these quarterly consolidated financial statements for the three months ended 31 March 2018 have been prepared according to the same accounting principles and measurement methods as those used in the last annual financial statements of the Group as at 31 December 2017. The financial statements for the financial year ended 31 December 2017 contain a detailed description of the accounting principles applied by the Group.

These 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.

Changes in accounting principles and preparation of financial statements

IFRS 15 "Revenue from Contracts with Customers"

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

Revenue from construction contracts
A five-step model is applied under IFRS 15 to the recognition of revenue:
1. Identification of the contract with a customer.
2. Identification of performance obligations.
3. Determination of transaction price.
4. Allocation of the price to the performance obligations.
5. Recognition of revenue.

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

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

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

Recognition of expected losses

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

Practical use of progress measurement methods

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

Individual contract measurement stages:

a) Determination of a change in contract status – contracts in progress and completed contracts;
b) Determination of planned revenue adjustments;
c) Update of revenue budget (twice a year);
d) Update of cost budget (twice a year);
e) Calculation of invoiced revenue;
f) Calculation of direct and indirect costs incurred in connection with the performance of construction contracts;
g) Calculation of general construction costs incurred (entity's general costs and general construction costs);
h) Measurement of progress toward completion under a contract and recognition of revenue with an input method; and

i) Measurement of Payables and Receivables where invoices for construction services contain prices lower or higher than agreed.

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

Presentation in the statements

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

Included in "Payables under contracts (measurement)" are the amounts due and payable to suppliers in connection with all construction work in progress in respect of which the amounts invoiced for the work performed under the contract exceed recognised revenue.

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

IFRS 9 "Financial Instruments"

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

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

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

Classification and measurement

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

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

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

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

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

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

The Group's financial assets measured at amortized cost include:
- Trade receivables;
- Receivables from the state budget other than corporate income tax;
- Deposits relating to supplies and services;
- Advanced loans; and

- Cash and cash equivalents.

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

Financial assets	Categories of financial assets IAS 39	IFRS 9
Retentions on construction contracts (before discount)	Loans and receivables	Measured at amortised cost
Trade receivables	Loans and receivables	
Receivables from the state budget other than corporate income tax	Loans and receivables	
Advanced loans	Loans and receivables	
Cash and cash equivalents	Measured at fair value through profit or loss	

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

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

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

Impairment

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

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

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

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

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

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

Hedge accounting

No hedge accounting is applied by the Group.

4.10.3. Judgments and estimates

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

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

5. Approval of the condensed consolidated financial statements

These condensed consolidated financial statements for the three months ended 31 March 2018 were approved for publication by the Management Board of ZUE on 22 May 2018.

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, 22 May 2018

ZUE S.A.

CONDENSED SEPARATE FINANCIAL STATEMENTS
FOR 3 MONTHS ENDED 31 MARCH 2018

Cracow, 22 May 2018

III. Selected financial data of ZUE S.A.

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

	Balance at 31-03-2018		Balance at 31-12-2017	
	PLN '000	**EUR '000**	**PLN '000**	**EUR '000**
Non-current assets	165,477	39,320	158,317	37,958
Current assets	255,093	60,614	316,965	75,994
Total assets	**420,570**	**99,934**	**475,282**	**113,952**
Equity	208,674	49,584	210,366	50,437
Non-current liabilities	24,782	5,889	23,837	5,715
Current liabilities	187,114	44,461	241,079	57,800
Total equity and liabilities	**420,570**	**99,934**	**475,282**	**113,952**

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

	Period ended 31-03-2018		Period ended 31-03-2017	
	PLN '000	**EUR '000**	**PLN '000**	**EUR '000**
Revenue	112,613	26,951	30,383	7,084
Cost of sales	110,171	26,367	33,746	7,868
Gross profit (loss) on sales	**2,442**	**584**	**-3,363**	-784
Operating profit (loss)	-2,269	-543	-8,298	-1,935
Gross profit (loss)	-2,021	-484	-8,550	-1,993
Net profit (loss) from continuing operations	**-1,692**	**-405**	**-7,023**	-1,637
Total comprehensive income	-1,692	-405	-7,023	-1,637

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

	Period ended 31-03-2018		Period ended 31-03-2017	
	PLN '000	**EUR '000**	**PLN '000**	**EUR '000**
Cash flows from operating activities	-75,269	-18,014	-29,430	-6,862
Cash flows from investing activities	-11,687	-2,797	11,199	2,611
Cash flows from financing activities	640	153	-2,572	-600
Total net cash flows	**-86,316**	**-20,658**	**-20,803**	**-4,851**
Cash at the beginning of the period	116,144	27,846	61,207	13,835
Cash at the end of the period	29,882	7,100	39,599	9,384

(PLN '000, unless otherwise provided)

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 31-03-2018	Exchange rate on 31-12-2017	Exchange rate on 31-03-2017
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2085	4.1709	n/a
Items of statement of profit or loss and statement of cash flows	Arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month of the period	4.1784	n/a	4.2891
"Cash at the beginning of the period" and "Cash at the end of the period" items in the statement of cash flow	Mid exchange rate prevailing at the end of the reporting period	4.2085	4.1709	4.2198

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

Separate statement of comprehensive income

Continuing operations	**Note no.**	**3 months ended 31-03-2018**	**3 months ended 31-03-2017**
Revenue	2.1.1.	112,613	30,383
Cost of sales	2.1.2.	110,171	33,746
Gross profit (loss) on sales		**2,442**	**-3,363**
General and administrative expenses	2.1.2.	4,256	4,333
Other operating income	2.1.3.	619	699
Other operating expenses	2.1.4.	1,074	1,301
Operating profit (loss)		**-2,269**	**-8,298**
Financial income	2.1.5.	414	630
Financial expenses	2.1.6.	166	882
Pre-tax profit (loss)		**-2,021**	**-8,550**
Corporate income tax	2.1.7.	-329	-1,527
Net profit (loss) from continuing operations		**-1,692**	**-7,023**
Net profit (loss)		**-1,692**	**-7,023**
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		**0**	**0**
Actuarial gains (losses) relating to specific benefit schemes		0	0
Other total net comprehensive income		**0**	**0**
Total comprehensive income		**-1,692**	**-7,023**
Number of shares		23,030,083	23,030,083

(PLN '000, unless otherwise provided)

Net profit (loss) per share (PLN) (basic and diluted)	-0.07	-0.30
Total comprehensive income (loss) per share (PLN)	-0.07	-0.30

Separate statement of financial position

	Note no.	Balance at 31-03-2018	Balance at 31-12-2017
ASSETS			
Non-current assets			
Property, plant and equipment	2.5.1.	98,930	92,004
Investment property	2.5.2.	8,990	9,095
Intangible assets		8,472	8,594
Goodwill	2.5.3.	31,172	31,172
Investments in subordinates		210	210
Retentions on construction contracts	2.2.2.	9,571	9,439
Deferred tax assets	2.1.7.	8,132	7,803
Total non-current assets		**165,477**	**158,317**
Current assets			
Inventories	2.5.6.	39,944	24,239
Trade and other receivables	2.3.1.	180,985	171,270
Retentions on construction contracts	2.2.2.	223	4,393
Current tax assets	2.1.7.	0	0
Loans advanced	2.5.5.	3,229	10
Other assets		830	909
Cash and cash equivalents	2.4.3.	29,882	116,144
Total current assets		**255,093**	**316,965**
Total assets		**420,570**	**475,282**

(PLN '000, unless otherwise provided)

	Note no.	Balance at 31-03-2018	Balance at 31-12-2017
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		111,769	113,461
Total equity		**208,674**	**210,366**
Non-current liabilities			
Long-term loans and bank credits and other financing sources	2.4.1.	11,646	11,205
Retentions on construction contracts	2.2.2.	5,938	5,755
Liabilities under employee benefits		856	856
Long-term provisions	2.2.3.	6,062	5,671
Other liabilities		280	350
Total non-current liabilities		**24,782**	**23,837**
Current liabilities			
Trade and other payables	2.3.2.	153,502	206,425
Retentions on construction contracts	2.2.2.	5,308	6,663
Short-term loans and bank credits and other financing sources	2.4.1.	9,665	8,773
Other financial liabilities		36	36
Liabilities under employee benefits		16,047	16,184
Current tax liabilities	2.1.7.	0	0
Short-term provisions	2.2.3.	2,556	2,998
Total current liabilities		**187,114**	**241,079**
Total liabilities		**211,896**	**264,916**
Total equity and liabilities		**420,570**	**475,282**

(PLN '000, unless otherwise provided)

Separate statement of changes in equity

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	**1 January 2018**	**5,758**	**93,837**	**-2,690**	**113,461**	**210,366**
Dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Buy-back of shares		0	0	0	0	0
Profit (loss)		0	0	0	-1,692	-1,692
Other net comprehensive income		0	0	0	0	0
Balance at	**31 March 2018**	**5,758**	**93,837**	**-2,690**	**111,769**	**208,674**

		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	-7,023	-7,023
Other net comprehensive income		0	0	0	0	0
Balance at	**31 March 2017**	**5,758**	**93,837**	**-2,690**	**105,695**	**202,600**

(PLN '000, unless otherwise provided)

Separate statement of cash flows

	3 months ended 31-03-2018	3 months ended 31-03-2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	**-2,021**	**-8,550**
Adjustments for:		
Depreciation and amortisation	2,506	2,340
Foreign exchange gains / (losses)	-54	805
Interest and share in profit (dividends)	-49	48
(Gain) / loss on disposal of investments	-6	-108
Operating profit before changes in working capital	**376**	**-5,465**
Change in receivables and retentions on construction contracts	-5,829	25,426
Change in inventories	-15,705	-15,235
Change in provisions and liabilities under employee benefits	-188	-3,606
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	-54,004	-30,960
Change in accrued expenses	81	428
Income tax paid / tax refund	0	-18
NET CASH FROM OPERATING ACTIVITIES	**-75,269**	**-29,430**
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	309	267
Purchase of property, plant and equipment and intangible assets	-9,009	-554
Cash payments to purchase debt instruments of other entities	0	-126,889
Redemption of debt instruments of other entities	0	138,083
Loans advanced	-3,200	-4
Repayment of granted loans	0	4
Interest received	213	75
Gain / (loss) on redemption of debt instruments	0	217
NET CASH FROM INVESTING ACTIVITIES	**-11,687**	**11,199**
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	3,326	0
Repayment of loans and bank credits	0	0
Decrease in finance lease liabilities and liabilities relating to financing of property, plant and equipment	-2,535	-2,452
Interest paid	-151	-119
Other cash provided by / (used in) financing activities – dividends	0	-1
NET CASH FLOWS FROM FINANCING ACTIVITIES	**640**	**-2,572**
TOTAL NET CASH FLOWS	**-86,316**	**-20,803**
Net foreign exchange gains / (losses)	54	-805
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**116,144**	**61,207**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**29,882**	**39,599**

(PLN '000, unless otherwise provided)

Notes to the condensed separate financial statements of ZUE

1. General information

1.1. Information about the Company

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

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

Management Board:

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

Supervisory Board:

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

Audit Committee:

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

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

1.2. Activities of the Company

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

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

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

The construction activity conducted by ZUE is expanded to enable the Company to deliver, based on its own skills and resources, reinforced concrete projects such as viaducts, bridges, culverts, resistance walls or sound barriers.

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

1.3. Functional and reporting currency

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

2. Financial information

2.1. Notes to the statement of comprehensive income

2.1.1. Revenue

	Period ended 31-03-2018	Period ended 31-03-2017
Revenue from construction contracts	110,740	29,489
Revenue from the rendering of services	1,664	750
Revenue from the sale of goods and raw materials	209	144
Total	**112,613**	**30,383**

The Company's revenue in the period from 1 January to 31 March 2018 amounted to PLN 112,613 thousand and increased by 271% over the analogous figure reported in the analogous period of 2017.

The impressive year-on-year increase of revenue in the first quarter of 2018 is a result of the growth trends observed already in the third and fourth quarter of 2017 when the Company effectively took advantage of the opportunities offered by the new (mainly railway) contracts. This contributed to a significant increase in revenue.

Although activities conducted in the first quarter of a year usually generate the lowest profit, the Company's revenue in the reporting period grew almost three times when compared with the analogous period of 2017.

In the first quarter of 2018, the Company carried out works in the territory of Poland. In addition, ZUE generated revenue of PLN 90 thousand from the provision of equipment services in Slovakia.

Long-term construction contracts had the biggest share in revenue.

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

2.1.2. Operating expenses

	Period ended 31-03-2018	Period ended 31-03-2017
Change in products	-837	-302
Depreciation and amortization	2,506	2,340
Consumption of raw and other materials	66,741	6,354
Contracted services	25,355	13,250
Costs of employee benefits	18,128	12,703
Taxes and charges	369	379
Other expenses	2,108	3,230
Value of goods and materials sold	57	125
Total	**114,427**	**38,079**

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

(PLN '000, unless otherwise provided)

	Period ended 31-03-2018	Period ended 31-03-2017
Cost of sales	110,171	33,746
General and administrative expenses	4,256	4,333
Total	**114,427**	**38,079**

ZUE's general and administrative expenses between 1 January and 31 March 2018 stood at PLN 4,256 thousand and decreased by 2 % when compared with the Company's general and administrative expenses in the first quarter of 2017.

Depreciation and amortisation

	Period ended 31-03-2018	Period ended 31-03-2017
Depreciation of property, plant and equipment	2,268	2,070
Amortisation of intangible assets	122	154
Depreciation of investments in real property	116	116
Total	**2,506**	**2,340**

2.1.3. Other operating income

	Period ended 31-03-2018	Period ended 31-03-2017
Gain on disposal of assets	**6**	**108**
Gain on disposal of non-current assets	6	108
Other operating income	**613**	**591**
Re-invoicing of bonds and insurance policies	302	6
Damages and penalties	203	27
Release of write-downs of receivables	20	219
Refund of costs of court proceedings	77	44
Release of allowances for inventories	5	4
Inventories	6	291
Total	**619**	**699**

2.1.4. Other operating expenses

	Period ended 31-03-2018	Period ended 31-03-2017
Loss on disposal of assets	**0**	**0**
Loss on disposal of non-current assets	0	0
Other operating expenses	**1,074**	**1,301**
Donations	8	1
Re-invoiced costs of bonds and insurance policies	302	6
Damages and penalties	612	29
Write-downs of receivables	102	1,258
Costs of litigation	23	2
Other	27	5
Total	**1,074**	**1,301**

(PLN '000, unless otherwise provided)

2.1.5. Financial income

	Period ended 31-03-2018	Period ended 31-03-2017
Interest income	**200**	**356**
Interest on bank deposits	181	75
Interest on loans	19	0
Interest on receivables	0	281
Other financial income	**214**	**274**
Foreign exchange gains	19	0
Discount of long-term items	127	0
Realisation of financial instruments	0	217
Guarantees	68	56
Other	0	1
Total	**414**	**630**

2.1.6. Financial expenses

	Period ended 31-03-2018	Period ended 31-03-2017
Interest expenses	**155**	**120**
Interest on finance lease liabilities	41	79
Interest on liabilities relating to financing of property, plant and equipment	110	40
Interest on trade and other payables	4	1
Other financial expenses	**11**	**762**
Foreign exchange losses	0	742
Other	11	20
Total	**166**	**882**

2.1.7. Corporate income tax

Corporate income tax recognised in the statement of comprehensive income

	Period ended 31-03-2018	Period ended 31-03-2017
Current income tax	0	77
Deferred tax	-329	-1,604
Total tax expense/income	**-329**	**-1,527**

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

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

(PLN '000, unless otherwise provided)

Current income tax

	Period ended 31-03-2018	Period ended 31-03-2017
Gross profit (loss)	**-2,021**	**-8,550**
Difference between gross profit (loss) and income tax base:	-8,342	-1,460
- 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	-8,342	-1,460
- other differences (including loss brought forward)	0	0
Income/loss	-10,363	-10,010
Income tax base	0	0
Income tax at the applicable rate of 19%	0	0
Income tax paid /(tax refund) on income earned abroad	0	77
Tax increases, waivers, exemptions, deductions and reductions	0	0
Adjustment of income tax for previous periods	0	0
Current income tax	**0**	**77**

Current tax assets and liabilities

	Balance at 31-03-2018	Balance at 31-12-2017
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	0	0

(PLN '000, unless otherwise provided)

Deferred tax balance

	Balance at 31-03-2018	Balance at 31-03-2017
Deferred tax balance at the beginning of the period	**7,803**	**8,465**
Temporary differences relating to deferred tax assets:	**28,990**	**13,431**
Provisions for expenses and accruals	10,065	7,132
Discount of receivables	359	247
Lease liabilities	190	112
Write-downs	1,171	1,575
Bonds and insurance settled over time	1,582	620
Tax work in progress	15,202	2,991
Valuation of long-term contracts	24	224
Other	397	530
Temporary differences relating to deferred tax liabilities:	**30,481**	**13,134**
Valuation of long-term contracts	20,951	3,735
Property, plant and equipment and intangible assets	9,140	9,080
Discount of payables	382	314
Other	8	5
Unused tax losses and other tax credits to be settled in future:	**9,623**	**9,772**
Tax losses	9,623	9,772
Tax credits	0	0
Other	0	0
Total temporary differences relating to deferred tax assets:	**38,613**	**23,203**
Total temporary differences relating to deferred tax liabilities:	**30,481**	**13,134**
Deferred tax balance at the end of the period	**8,132**	**10,069**
Change in deferred tax, including:	**329**	**1,604**
- recognised in income	329	1,604
- recognised in equity	0	0

(PLN '000, unless otherwise provided)

2.2. Contracts, retentions and provisions

2.2.1. Construction contracts

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

	Period ended 31-03-2018	Period ended 31-03-2017
Revenue from long-term construction contracts	105,839	26,558
Costs of long-term construction contracts	101,656	25,970
Gross profit (loss) on long-term contracts	**4,183**	**588**
Revenue from long-term construction contracts (cumulative)	615,068	359,389
Costs of long-term construction contracts (cumulative)	599,658	356,543
Gross profit (loss) on long-term contracts (cumulative)*	**15,410**	**2,846**

	Balance at 31-03-2018	Balance at 31-12-2017
Assets (selected items)	**134,106**	**90,919**
- Valuation of contracts	110,267	65,524
- Advance payments for contracts	14,045	11,563
- Retentions on construction contracts retained by customers	9,794	13,832
Liabilities (selected items)	**122,954**	**125,425**
- Valuation of contracts	125	475
- Provisions for contract costs	33,508	28,737
- Advance payments for contracts	69,457	75,126
- Retentions on construction contracts retained for suppliers	11,246	12,418
- Provisions for warranty claims	8,557	8,252
- Provisions on expected losses on contracts	61	417

* Gross profit (loss) on long-term construction contracts in progress at the end of the reporting period (cumulative).

2.2.2. Retentions on construction contracts

	Balance at 31-03-2018	Balance at 31-12-2017
Retained by customers – to be repaid after 12 months	9,571	9,439
Retained by customers – to be repaid within 12 months	223	4,393
Total retentions on construction contracts retained by customers	**9,794**	**13,832**
Retained for suppliers – to be repaid after 12 months	5,938	5,755
Retained for suppliers – to be repaid within 12 months	5,308	6,663
Total retentions on construction contracts retained for suppliers	**11,246**	**12,418**

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

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

(PLN '000, unless otherwise provided)

2.2.3. Provisions

Change in provisions

Provisions	01-01-2018	Created	Used	Released	Reclassified	31-03-2018	Item
Long-term provisions:	**6,527**	**482**	**35**	**101**	**45**	**6,918**	
Provisions for employee benefits	856	0	0	0	0	856	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,671	482	35	101	45	6,062	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	**13,117**	**3,170**	**4,556**	**369**	**-45**	**11,317**	
Provisions for employee benefits	10,119	3,169	4,527	0	0	8,761	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,581	1	29	13	-45	2,495	Short-term provisions
Provision for loss on contracts	417	0	0	356	0	61	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	**19,644**	**3,652**	**4,591**	**470**	**0**	**18,235**	

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

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

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

2.3. Trade and other receivables and payables

2.3.1. Trade and other receivables

	Balance at 31-03-2018	Balance at 31-12-2017
Trade receivables	60,655	103,145
Write-downs of trade receivables	-13,694	-13,280
Receivables from the state budget other than corporate income tax	5,356	0
Receivables under contracts (valuation)	110,267	65,524
Advance payments	14,045	11,563
Other receivables	4,356	4,318
Total trade and other receivables	**180,985**	**171,270**

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

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

(PLN '000, unless otherwise provided)

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

Change in write-downs of trade receivables influencing the profit or loss includes the release of write-downs of PLN 20 thousand and the creation of write-downs of PLN 102 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by ZUE for penalties and damages that are not the Company's revenue at the moment of issue.

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

	Balance at 31-03-2018
Counterparty A	27,914
Total	**27,914**

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

2.3.2. Trade payables

	Balance at 31-03-2018	Balance at 31-12-2017
Trade payables	48,945	86,200
Payables to the state budget other than corporate income tax	1,208	15,538
Accruals	33,654	28,944
Liabilities under contracts (valuation)	125	475
Other payables	113	142
Advance payments	69,457	75,126
Total trade and other payables	**153,502**	**206,425**

The items include:

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

2.4. Debt and management of capital and liquidity

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

2.4.1. Loans and bank credits and other financing sources

	Balance at 31-03-2018	Balance at 31-12-2017
Long-term	**11,646**	**11,205**
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	8,278	7,714
Finance lease liabilities	3,368	3,491

(PLN '000, unless otherwise provided)

Short-term	**9,665**	**8,773**
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	7,466	6,680
Finance lease liabilities	2,199	2,093
Total	**21,311**	**19,978**

Liabilities relating to the financing of property, plant and equipment include leasebacks, including the agreement for the purchase of pile driver of PLN 3,326 thousand signed in the first quarter of 2018. For presentation purposes, leaseback has been named the agreement for financing of property, plant and equipment.

Note 6.1 of the annual financial statements for 2017 contains a detailed description of credit agreements. The following changes occurred in the first quarter of 2018:
- increase in the use of bonds up to PLN 132,864 thousand.

2.4.2. Capital management

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

	Balance at 31-03-2018	**Balance at 31-12-2017**
Long- and short-term loans and bank credits and other financing sources	21,311	19,978
Long- and short-term other financial liabilities	36	36
	21,347	**20,014**
Cash and cash equivalents	29,882	116,144
Net debt	**-8,535**	**-96,130**
Equity	208,674	210,366
Net debt to equity ratio	**-4.09%**	**-45.70%**

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

The Company disclosed negative net debt because the value of funds was greater than total debt at the end of the first quarter of 2018. The Company mainly uses own funds to finance day-to-day operations. It also has credit limits. At the end of the reporting period, the said credit were mainly used for bonds.

2.4.3. Cash and cash equivalents

	Balance at 31-03-2018	**Balance at 31-12-2017**
Cash on hand and at banks	23,882	105,144
Bank deposits up to three months	6,000	11,000
TOTAL	**29,882**	**116,144**

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

Discussion of items of the statement of cash flows

The Company's cash flows from operating activities of PLN (-) 75,269 thousand were mainly influenced by changes in retentions, payables and receivables and inventories in connection with the performance of another stage of certain contracts.

The Company's cash flows from investing activities of PLN (-)11,687 thousand were mainly influenced by the purchase of non-current assets (wagons or pile driver) and a loan granted to a subsidiary.

The Company's cash flows from financing activities of PLN 640 thousand were mainly influenced by a decrease in lease obligations and the conclusion of leaseback for pile driver.

(PLN '000, unless otherwise provided)

	Period ended 31-03-2018	Period ended 31-03-2017
Cash flows from operating activities	-75,269	-29,430
Cash flows from investing activities	-11,687	11,199
Cash flows from financing activities	640	-2,572
Total net cash flows	**-86,316**	**-20,803**
Cash and cash equivalents at the beginning of the period	116,144	61,207
Cash and cash equivalents at the end of the period	29,882	39,599

(PLN '000, unless otherwise provided)

2.5. Notes to the financial statements

2.5.1. Property, plant and equipment

Gross value	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2018	**0**	**24,576**	**45,960**	**67,095**	**2,069**	**139,700**	**3,202**	**3,705**	**146,607**
Additions	0	0	3,361	9,960	0	13,321	8,895	0	22,216
Transfer to non-current assets	0	0	0	0	0	0	11,876	961	12,837
Sale/liquidation	0	0	538	0	2	540	0	0	540
Balance at 31 March 2018	**0**	**24,576**	**48,783**	**77,055**	**2,067**	**152,481**	**221**	**2,744**	**155,446**

Depreciation	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2018	**0**	**7,710**	**20,567**	**24,643**	**1,683**	**54,603**	**0**	**0**	**54,603**
Elimination on disposal of assets	0	0	353	0	2	355	0	0	355
Depreciation expense	0	197	732	1,306	33	2,268	0	0	2,268
Balance at 31 March 2018	**0**	**7,907**	**20,946**	**25,949**	**1,714**	**56,516**	**0**	**0**	**56,516**
Carrying amount									
Balance at 1 January 2018	**0**	**16,866**	**25,393**	**42,452**	**386**	**85,097**	**3,202**	**3,705**	**92,004**
Balance at 31 March 2018	**0**	**16,669**	**27,837**	**51,106**	**353**	**95,965**	**221**	**2,744**	**98,930**

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

Assets pledged as security

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

(PLN '000, unless otherwise provided)

2.5.2. Investment property

Investment property

Gross value	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2018	**126**	**5,228**	**7,397**	**0**	**0**	**0**	**12,751**
Additions	0	0	11	0	0	0	11
Impairment	0	0	0	0	0	0	0
Sale/liquidation	0	0	0	0	0	0	0
Balance at 31 March 2018	**126**	**5,228**	**7,408**	**0**	**0**	**0**	**12,762**

Depreciation	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2018	**0**	**1,505**	**2,151**	**0**	**0**	**0**	**3,656**
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	43	73	0	0	0	116
Balance at 31 March 2018	**0**	**1,548**	**2,224**	**0**	**0**	**0**	**3,772**
Carrying amount							
Balance at 1 January 2018	**126**	**3,723**	**5,246**	**0**	**0**	**0**	**9,095**
Balance at 31 March 2018	**126**	**3,680**	**5,184**	**0**	**0**	**0**	**8,990**

At 31 March 2018, investment property included:
- real estate in Kościelisko (plots no. 2001 and 2491),
- real estate in Poznań (plot no. 2/1).

The Company's investment property is either owned or leasehold by the Company.

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

(PLN '000, unless otherwise provided)

2.5.3. Goodwill

At cost	Balance at 31-03-2018	Balance at 31-12-2017
Goodwill of PRK	31,172	31,172
Balance at the end of the reporting period	**31,172**	**31,172**

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

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

ZUE and PRK merged under joint control.

The entire goodwill is assigned to the construction segment.

At the end of the reporting period, the Company saw no grounds to recognise impairment losses. The impairment test will be carried out at the end of the year.

2.5.4. Investments in non-current assets

The total capital expenditure incurred by the Company in the reporting period amounted to PLN 9,389 thousand. The capital expenditure and investment financing are detailed in the table below.

Item:	Own funds	Finance lease	Leaseback	Total
Intangible assets, including:	**0**	**0**	**0**	**0**
- leasehold land	0	0	0	0
Property, plant and equipment, including:	**5,510**	**542**	**3,326**	**9,378**
- buildings and structures	0	0	0	0
- plant and equipment	3,361	0	3,326	6,687
- vehicles	9,527	433	0	9,960
- other	0	0	0	0
- non-current assets under construction	8,785	109	0	8,894
- settlement of non-current assets under construction for ongoing investments	-11,876	0	0	-11,876
- leaseback	-3,326	0	0	-3,326
- settlement of advance payment from prior period for ongoing investments	-961	0	0	-961
Investment property	**11**	**0**	**0**	**11**
Equity investments	**0**	**0**	**0**	**0**
Total investments	**5,521**	**542**	**3,326**	**9,389**

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

- Purchase of 35 EAOS wagons worth PLN 4,621 thousand.
- Purchase of 40 Smmps wagons worth PLN 3,935 thousand.
- Complete overhauls of machines and vehicles in the total amount of PLN 971 thousand.
- Purchase of cars for PLN 542 thousand (lease).
- Purchase of PV 15RPR pile driver of PLN 3,326 thousand (lease).

In the first quarter of 2018, the Company entered into a lease contract for PV 15RPR pile driver of PLN 3,326 thousand and a lease contract for cars of PLN 542 thousand. The pile driver was initially financed by own resources (leaseback).

(PLN '000, unless otherwise provided)

The amount recognized in the statement of cash flows is the purchase of PLN 9,102 thousand. The difference is a result of actual payments made after the end of the reporting period and leaseback.

2.5.5. Advanced loans

	Balance at 31-03-2018	Balance at 31-12-2017
Loans advanced to related entities	3,285	66
Loans advanced to other entities	279	279
Impairment losses	-335	-335
Total	**3,229**	**10**

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

2.5.6. Inventories

	Balance at 31-03-2018	Balance at 31-12-2017
Goods, materials and raw materials	38,574	23,706
Work in progress	1,171	334
Finished goods	199	199
Total	**39,944**	**24,239**

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

2.5.7. Financial instruments

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

Balance at 31 March 2018

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through:		Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
		Profit or loss	Other comprehensive income		
Retentions on construction contracts (before discount)	11,978	0	0	0	12,173
Trade receivables	60,655	0	0	0	0
Receivables from the state budget other than corporate income tax	5,356	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	3,229	0	0	0	0
Cash and cash equivalents	29,882	0	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	21,311
Trade payables	0	0	0	0	48,945
Payables to the state budget other than corporate income tax	0	0	0	0	1,208

Total	**111,100**	**0**	**0**	**0**	**83,673**

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

(PLN '000, unless otherwise provided)

2.5.8. Transactions with related entities

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

	Receivables		Payables	
	Balance at		Balance at	
	31-03-2018	31-12-2017	31-03-2018	31-12-2017
Railway gft	50	178	447	4,919
BPK Poznań	1,313	1,351	1,258	1,329
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	**1,363**	**1,529**	**1,705**	**6,248**

	Revenue		Purchases	
	Period ended		Period ended	
	31-03-2018	31-03-2017	31-03-2018	31-03-2017
Railway gft	87	48	2,619	10,437
BPK Poznań	163	131	2,021	108
RTI	1	1	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	468
Total	**251**	**180**	**4,640**	**11,013**

	Advanced loans		Financial income (interest)	
	Balance at		Balance at	
	31-03-2018	31-12-2017	31-03-2018	31-03-2017
Railway gft	3,219	0	19	0
BPK Poznań	0	0	0	0
RTI	10	10	0	0
RTI Germany	56	56	0	0
Wiesław Nowak	0	0	0	0
Total	**3,285**	**66**	**19**	**0**

	Received loans		Financial expenses (interest)	
	Balance at		Balance at	
	31-03-2018	31-12-2017	31-03-2018	31-03-2017
ZUE	0	0	0	0
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:

- Lease of rooms, including utilities and phone services; and

(PLN '000, unless otherwise provided)

- Financial services.

In the reporting period, ZUE entered into the following purchase transactions with the related entities:
- Purchase of materials used in connection with the construction and repair of tracks;
- Design services; and
- Printing 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 24 January 2018, ZUE and Railway gft signed a loan agreement whereby Railway gft was granted a special-purpose loan of PLN 3.2m to be repaid by 31 March 2019. The loan was disbursed on 25 January 2018.

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

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

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 31 March 2018 is PLN 18,430 thousand. ZUE is remunerated for the provision of guarantees.

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

At the date of preparation of this report, ZUE is a party to the pending court proceedings concerning the Company's claims and liabilities of the total value of PLN 51,112 thousand; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 284 thousand and the total value of the proceedings concerning claims is PLN 50,828 thousand.

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

The court cases are described in detail in note II 4.7.9 of the consolidated financial statements.

2.5.10. Contingent assets and liabilities

Contingent assets

	Balance at 31-03-2018	Balance at 31-12-2017
Bonds	37,611	36,309
Bills of exchange	10,440	6,756
Total	**48,051**	**43,065**

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

Contingent liabilities

	Balance at 31-03-2018	Balance at 31-12-2017
Bonds	502,457	477,103
Guarantees	18,430	18,421
Bills of exchange	310,498	317,684
Mortgages	54,259	54,259

(PLN '000, unless otherwise provided)

Pledges	14,740	13,048
Total	**900,384**	**880,515**

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

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

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

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

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

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

Construction and assembly operations are marked by the seasonality of production and sales. The topic is discussed in detail in note II 2.10 of the consolidated financial statements.

2.7. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the three months ended 31 March 2018 or the three months ended 31 March 2017.

2.8. Issue and redemption of debt and equity securities

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

2.9. Dividend

On 24 April 2018, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit of the Company for the financial year 2017 of PLN 839 thousand to reserve funds.

The Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations.

2.10. Operating segments

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

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

2.11. Other notes to the financial statements

2.11.1. Use of International Financial Reporting Standards

Statement of compliance

The condensed separate financial statements have been drawn up in accordance with IAS 34 as at 31 March 2018 as endorsed by the European Union (EU).

The separate financial statements for the three months ended 31 March 2018 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

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

- **IFRS 9 "Financial Instruments"** – endorsed in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – endorsed in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts" –** Use of **IFRS 9 "Financial Instruments"** in conjunction with **IFRS 4 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2018 or the moment IFRS 9 "Financial Instruments" are used for the first time);
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures" –** a part of "**Amendments Resulting from Review of IFRS 2014-2016"** (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 1 "Use of International Financial Reporting Standards for the first time" –** a part of "**Amendments Resulting from Review of IFRS 2014-2016"** (effective for annual periods beginning on or after 1 January 2018);
- **Interpretation of IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 40 "Investment Property" –** Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).

Standards and interpretations published by the EU but not yet effective

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

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019).

Standards and interpretations adopted by the IASB but not yet endorsed by the EU

The International Financial Reporting Standards (IFRS) as endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) excluding the following new standards and amendments to the standards not yet approved for use in the EU at the date of preparation of this report:

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 9 "Financial Instruments" –** "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"** (the effective date has been deferred by the IASB indefinitely);
- **Amendments Resulting from Review of IFRS 2015-2017** (effective for annual periods beginning on or after 1 January 2019);
- **Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019);
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016).

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

2.11.2. 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 the 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

Except for the following changes, these quarterly separate financial statements for the three months ended 31 March 2018 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 2017. The financial statements for the financial year ended 31 December 2017 contain a detailed description of the accounting principles applied by the Company.

These separate financial statements do not include all the information and disclosures required in the case of annual financial statements and they should be read together with the annual financial statements of ZUE.

Changes in accounting principles and the preparation of financial statements

IFRS 15 and IFRS 9 have been applied by the Company since 1 January 2018. The effect of the new standards has been discussed in detail in note II 4.10.2 of the consolidated financial statements.

2.11.3. Judgments and 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 principles and presented assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual values may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods if the revision affects both current and future periods.

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

3. Approval of the condensed separate financial statements

These condensed separate financial statements for the three months ended 31 March 2018 were approved for publication by the Management Board of ZUE on 22 May 2018.

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, 22 May 2018