ZUE Capital Group

CONSOLIDATED QUARTERLY REPORT
FOR 9 MONTHS ENDED 30 SEPTEMBER 2018

Cracow, 26 November 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, as amended).

Share capital details as at 30 September 2018.

CONTENTS

I. Selected financial data of the Group

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

	Balance at 30-09-2018		Balance at 31-12-2017	
	PLN '000	**EUR '000**	**PLN '000**	**EUR '000**
Non-current assets	167,515	39,218	158,593	38,024
Current assets	380,890	89,172	343,659	82,394
Total assets	**548,405**	**128,390**	**502,252**	**120,418**
Equity	211,373	49,487	209,419	50,210
Non-current liabilities	36,700	8,592	25,472	6,107
Current liabilities	300,332	70,311	267,361	64,101
Total equity and liabilities	**548,405**	**128,390**	**502,252**	**120,418**

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

	Period ended 30-09-2018		Period ended 30-09-2017	
	PLN '000	**EUR '000**	**PLN '000**	**EUR '000**
Revenue	555,855	130,682	233,459	54,846
Cost of sales	538,349	126,566	229,705	53,964
Gross profit (loss) on sales	**17,506**	**4,116**	**3,754**	**882**
Profit (loss) on operating activities	1,551	365	-11,647	-2,736
Gross profit (loss)	2,199	517	-13,992	-3,287
Net profit (loss) from continuing operations	**1,968**	**463**	**-12,144**	**-2,853**
Total comprehensive income	1,965	462	-12,194	-2,865

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

	Period ended 30-09-2018		Period ended 30-09-2017	
	PLN '000	**EUR '000**	**PLN '000**	**EUR '000**
Cash flows from operating activities	-84,054	-19,761	-65,839	-15,468
Cash flows from investing activities	-17,572	-4,131	39,804	9,351
Cash flows from financing activities	6,597	1,551	6,827	1,604
Total net cash flows	**-95,029**	**-22,341**	**-19,208**	**-4,513**
Cash at the beginning of the period	117,748	28,231	62,717	14,177
Cash at the end of the period	22,741	5,324	43,101	10,002

(PLN '000, unless otherwise provided)

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 30-09-2018	Exchange rate on 31-12-2017	Exchange rate on 30-09-2017
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2714	4.1709	4.3091
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	4.2535	n/a	4.2566
"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	4.2714	4.1709	4.3091

II. Selected financial data of ZUE S.A.

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

	Balance at 30-09-2018		Balance at 31-12-2017	
	PLN '000	**EUR '000**	**PLN '000**	**EUR '000**
Non-current assets	166,758	39,041	158,317	37,958
Current assets	356,530	83,469	316,965	75,994
Total assets	**523,288**	**122,510**	**475,282**	**113,952**
Equity	211,615	49,542	210,366	50,437
Non-current liabilities	34,752	8,136	23,837	5,715
Current liabilities	276,921	64,832	241,079	57,800
Total equity and liabilities	**523,288**	**122,510**	**475,282**	**113,952**

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

	Period ended 30-09-2018		Period ended 30-09-2017	
	PLN '000	**EUR '000**	**PLN '000**	**EUR '000**
Revenue	507,241	119,253	212,280	49,871
Cost of sales	493,407	116,000	209,509	49,220
Gross profit (loss) on sales	**13,834**	**3,253**	**2,771**	**651**
Profit (loss) on operating activities	594	140	-9,872	-2,319
Gross profit (loss)	1,766	415	-11,748	-2,760
Net profit (loss) from continuing operations	**1,252**	**294**	**-9,851**	**-2,314**
Total comprehensive income	1,249	294	-9,901	-2,326

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

	Period ended 30-09-2018		Period ended 30-09-2017	
	PLN '000	**EUR '000**	**PLN '000**	**EUR '000**
Cash flows from operating activities	-82,887	-19,487	-65,270	-15,334
Cash flows from investing activities	-17,634	-4,146	39,652	9,315
Cash flows from financing activities	6,114	1,437	6,935	1,629
Total net cash flows	**-94,407**	**-22,196**	**-18,683**	**-4,390**
Cash at the beginning of the period	116,144	27,846	61,207	13,835
Cash at the end of the period	21,759	5,094	42,119	9,774

(PLN '000, unless otherwise provided)

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 30-09-2018	Exchange rate on 31-12-2017	Exchange rate on 30-09-2017
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2714	4.1709	4.3091
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	4.2535	n/a	4.2566
"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	4.2714	4.1709	4.3091

ZUE Capital Group

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2018

Cracow, 26 November 2018

(PLN '000, unless otherwise provided)

III. Condensed consolidated financial statements of the Capital Group

Consolidated statement of comprehensive income

Continuing operations	**Note no.**	**9 months ended**	**3 months ended**	**9 months ended**	**3 months ended**
		30-09-2018	**30-09-2018**	**30-09-2017**	**30-09-2017**
Revenue	4.3.1.	555,855	236,743	233,459	125,616
Cost of sales	4.3.2.	538,349	231,368	229,705	116,043
Gross profit (loss) on sales		**17,506**	**5,375**	**3,754**	**9,573**
General and administrative expenses	4.3.2.	15,858	5,407	15,499	5,140
Other operating income	4.3.3.	1,135	157	2,145	343
Other operating expenses	4.3.4.	1,232	38	2,047	898
Profit (loss) on operating activities		**1,551**	**87**	**-11,647**	**3,878**
Financial income	4.3.5.	1,714	928	802	94
Financial expenses	4.3.6.	1,066	337	3,147	466
Pre-tax profit (loss)		**2,199**	**678**	**-13,992**	**3,506**
Corporate income tax	4.3.7.	231	-78	-1,848	672
Net profit (loss) from continuing operations		**1,968**	**756**	**-12,144**	**2,834**
Net profit (loss)		**1,968**	**756**	**-12,144**	**2,834**
Other net comprehensive income					
Items that will not be reclassified subsequently to profit or loss:		**-3**	**0**	**-50**	**0**
Actuarial gains (losses) relating to specific benefit schemes		-3	0	-50	0
Total other net comprehensive income		**-3**	**0**	**-50**	**0**
Total comprehensive income		**1,965**	**756**	**-12,194**	**2,834**
Number of shares		23,030,083	23,030,083	23,030,083	23,030,083
Consolidated net profit attributable to:					
Shareholders of the parent		1,808	670	-11,707	2,853
Non-controlling interests		160	86	-437	-19
Net profit (loss) per share (PLN) attributable to shareholders of the parent (basic and diluted)		0.08	0.03	-0.51	0.12
Total comprehensive income attributable to:					
Shareholders of the parent		1,805	670	-11,757	2,853
Non-controlling interests		160	86	-437	-19
Total comprehensive income per share (PLN)		0.08	0.03	-0.51	0.12

(PLN '000, unless otherwise provided)

Consolidated statement of financial position

	Note no.	Balance at 30-09-2018	Balance at 31-12-2017
ASSETS			
Non-current assets			
Property, plant and equipment	4.7.1.	104,288	95,023
Investment property	4.7.2.	5,349	5,591
Intangible assets		8,723	9,087
Goodwill	4.7.3.	31,172	31,172
Retentions on construction contracts	4.4.2.	10,182	9,696
Deferred tax assets	4.3.7.	7,801	8,024
Total non-current assets		**167,515**	**158,593**
Current assets			
Inventories	4.7.6.	47,838	27,938
Trade and other receivables	4.5.1.	123,440	117,940
Valuation of long-term construction contracts	4.4.1.	182,390	74,208
Retentions on construction contracts	4.4.2.	302	4,718
Current tax assets	4.3.7.	0	0
Loans advanced	4.7.5.	3,197	10
Other assets		982	1,097
Cash and cash equivalents	4.6.3.	22,741	117,748
Total current assets		**380,890**	**343,659**
Total assets		**548,405**	**502,252**

(PLN '000, unless otherwise provided)

	Note no.	Balance at 30-09-2018	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		114,391	112,605
Total equity attributable to shareholders of ZUE		**211,296**	**209,510**
Equity attributable to non-controlling interests		77	-91
Total equity		**211,373**	**209,419**
Non-current liabilities			
Long-term loans and bank credits and other financing sources	4.6.1.	15,996	11,224
Retentions on construction contracts	4.4.2.	11,549	6,254
Other financial liabilities		140	350
Liabilities under employee benefits		1,949	1,888
Long-term provisions	4.4.3.	7,066	5,756
Total non-current liabilities		**36,700**	**25,472**
Current liabilities			
Trade and other payables	4.5.2.	248,283	223,562
Valuation of long-term construction contracts	4.4.1.	124	724
Retentions on construction contracts	4.4.2.	7,097	6,795
Short-term loans and bank credits and other financing sources	4.6.1.	19,708	14,908
Other financial liabilities		316	316
Liabilities under employee benefits		20,816	17,522
Current tax liabilities	4.3.7.	7	0
Short-term provisions	4.4.3.	3,981	3,534
Total current liabilities		**300,332**	**267,361**
Total liabilities		**337,032**	**292,833**
Total equity and liabilities		**548,405**	**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 January 2018**	**5,758**	**93,837**	**-2,690**	**112,605**	**209,510**	**-91**	**209,419**
Change of interest in subsidiaries		0	0	0	-19	-19	8	-11
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	1,808	1,808	160	1,968
Other net comprehensive income		0	0	0	-3	-3	0	-3
Balance at	**30 September 2018**	**5,758**	**93,837**	**-2,690**	**114,391**	**211,296**	**77**	**211,373**

Balance at	**1 January 2017**	**5,758**	**93,837**	**-2,690**	**112,391**	**209,296**	**-14**	**209,282**
Change of interest in subsidiaries		0	0	0	0	0	0	0
Dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	-11,707	-11,707	-437	-12,144
Other net comprehensive income		0	0	0	-50	-50	0	-50
Balance at	**30 September 2017**	**5,758**	**93,837**	**-2,690**	**100,634**	**197,539**	**-451**	**197,088**

(PLN '000, unless otherwise provided)

Balance at	**1 January 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	310	310	-77	233
Other net comprehensive income		0	0	0	-96	-96	0	-96
Balance at	**31 December 2017**	**5,758**	**93,837**	**-2,690**	**112,605**	**209,510**	**-91**	**209,419**

(PLN '000, unless otherwise provided)

Consolidated statement of cash flows

	9 months ended 30-09-2018	9 months ended 30-09-2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	**2,199**	**-13,992**
Adjustments for:		
Depreciation and amortisation	8,050	7,297
Foreign exchange gains / (losses)	-37	408
Interest and share in profit (dividends)	652	410
(Gain) / loss on disposal of investments, including release of write-down on investment property	6	-1,157
Accrued expenses under commission on credit	0	4
Operating profit (loss) before changes in working capital	**10,870**	**-7,030**
Change in receivables, valuations of contracts and retentions on construction contracts	-110,267	-60,798
Change in inventories	-19,899	-30,549
Change in provisions and liabilities under employee benefits	5,109	-1,732
Change in liabilities, valuations of contracts and retentions on construction contracts, excluding loans and bank credits and other financing sources	30,022	33,547
Change in accrued expenses	111	639
Income tax paid / tax refund	0	84
NET CASH FROM OPERATING ACTIVITIES	**-84,054**	**-65,839**
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	885	847
Purchase of property, plant and equipment and intangible assets	-15,413	-16,114
Sale / (purchase) of financial assets in other entities	-58	0
Sale / (purchase) of financial assets from non-controlling shareholders	-11	0
Cash payments to purchase debt instruments of other entities	0	-166,950
Redemption of debt instruments of other entities	0	221,575
Loans advanced	-3,288	-9
Repayment of granted loans	102	4
Interest received	211	142
Gain / (loss) on redemption of debt instruments	0	309
NET CASH FROM INVESTING ACTIVITIES	**-17,572**	**39,804**
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	19,091	16,407
Repayment of loans and bank credits	-851	-1,000
Decrease in finance lease liabilities and liabilities relating to financing of property, plant and equipment	-10,858	-7,965
Interest paid	-785	-614
Other cash provided by / (used in) financing activities – dividends	0	-1
NET CASH FLOWS FROM FINANCING ACTIVITIES	**6,597**	**6,827**
TOTAL NET CASH FLOWS	**-95,029**	**-19,208**
Net foreign exchange gains / (losses)	22	-408
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**117,748**	**62,717**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:	**22,741**	**43,101**
- of limited availability	1	0

Notes to the condensed consolidated financial statements of the Group

1. General

1.1. Composition of the Capital Group

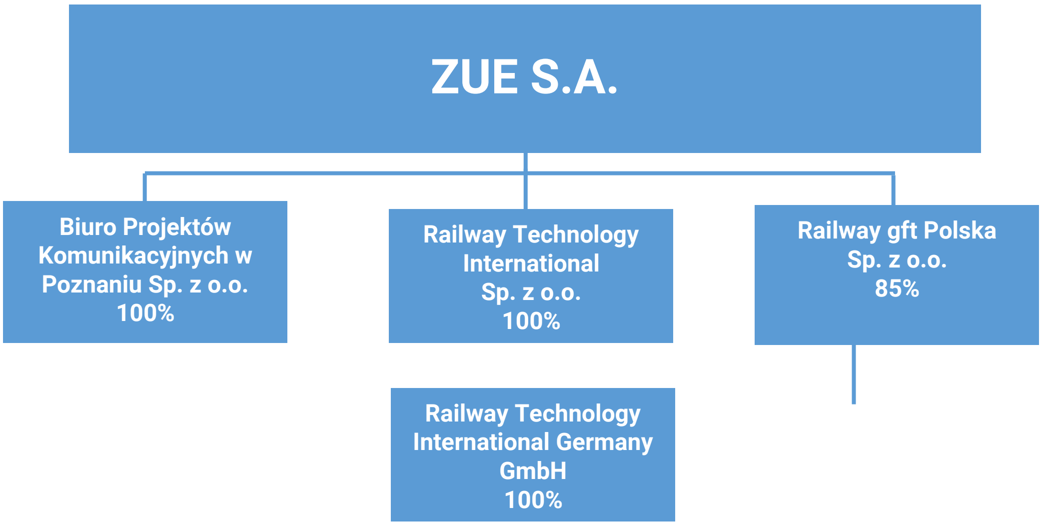
At the end of the reporting period, the Capital Group is composed of ZUE S.A. (parent company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o and Railway Technology International Germany GmbH (indirect subsidiary).

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, the Lubicz Street no. 3 (Rep. A no. 3715/2014). Cracow is the company’s registered office. The company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry no. KRS 0000532311.

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

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

(PLN ’000, unless otherwise provided)

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

1.2. Consolidated companies

Consolidated companies at 30 September 2018:

Company	Registered office	Interests at 30 September 2018	Interests at 31 December 2017	Consolidation method
ZUE S.A.	Cracow	Parent company	Parent company	
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	85%	70%	Full

ZUE is entitled to manage the financial and operating policy of BPK Poznań and Railway gft because at 30 September 2018, it held a 100% and 70% interest, respectively, in those companies.

At 30 September 2018, ZUE held 100% of shares in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary’s financial data on the Group’s economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated at 30 September 2018.

Railway Technology International Sp. z o.o. held 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 was not consolidated as at 30 September 2018.

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

On 10 April 2018, ZUE acquired 2,205 shares in RTI from Mr. Wiesław Nowak, the Management Board President, 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.

On 23 July 2018, ZUE acquired 450 shares in Railway gft from an individual. After the transaction, ZUE holds an 85% interest in Railway gft.

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.

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 the note no. 4.7.12.

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. Operational 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	Contract net value (PLNm) attributable to ZUE
Design services and construction works in connection with the following project: "Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section" executed as part of Eastern Poland Operational Programme.	PKP PLK S.A	379
Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the following project: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section."	PKP PLK S.A	372
Design and construction services in connection with the project no. 1: "Works on the Chabówka - Zakopane railway line no. 99" and the project no. 2: "Construction of railway link in Chabówka along the Sucha Beskidzka – Chabówka railway line no. 98 and the Chabówka – Zakopane railway line no. 99."	PKP PLK S.A	330
Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section, Infrastructure and Environment Operational Programme (IEOP) 5.1-12.	PKP PLK S.A	303

(PLN '000, unless otherwise provided)

Provision of design services and completion of works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola."	PKP PLK S.A	281
Completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF).	PKP PLK S.A	233
Design and construction services in connection with the Infrastructure and Environment Operational Programme (IEOP) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section."	PKP PLK S.A	210
Provision of design services and completion of construction works in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of 2014 Infrastructure and Environment Operational Programme (IEOP)."	PKP PLK S.A	96
Reconstruction of the tramway from the Lecha estate to the Żegrze roundabout (section II).	Poznańskie Inwestycje Miejskie Sp. z o.o.	83
Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-16 "Improvement of capacity of E 20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the Łowicz Local Traffic Control Centre (LCS) section."	PKP PLK S.A	80
Preparation of building and detailed designs and the completion of LOT B works as part of "design-build" project in connection with the Infrastructure and Environment Operational Programme (IEOP) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II.	PKP PLK S.A	72
Reconstruction of the line of the Królewska, Podchorążych and Bronowicka Streets in Cracow, the reconstruction of tramway tracks, OCL network and dehydrating and lightening system and the reconstruction of colliding technical infrastructure. The task executed as part of the following project: "Upgrade of tramway tracks and the associated infrastructure."	City of Cracow	63
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	62
Extension of the Igołomska Street, the national road no. 79 – Stage 2 together with the infrastructure in Cracow and additional contract.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	60
Reconstruction of rail transport infrastructure along the Wojska Polskiego Street from the Magnuszewska terminus to the Wojska Polskiego, Szpitalna, Szarych Szeregów and Bełzy transport hub.	City of Bydgoszcz	53
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	53
Maintenance and repair of tram infrastructure in Cracow in the period 2015-2018.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	48
Modernisation of E30 railway line Kraków Medyka, the Biadoliny – Tarnów section.	OHL ZS, a.s. S. A. Polish Branch	46

(PLN '000, unless otherwise provided)

Design services and construction works in connection with the following project: "Construction of the Czarnca - Włoszczowa Płn. railway line no. 582."	PKP PLK S.A	40
Modernisation of OCL network, B1.G Krzewie - Kłodawa section (140,000-155,000) – construction works in the area of the Kutno Local Traffic Control Centre (LCS).	Budimex S.A.	33
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.	30
Construction works on the line no. 95 of the Kościelniki – Podłęże section.	PKP PLK S.A	25
Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	16

* Contracts whose net value exceeds PLN 10m.

Design services provided by BPK Poznań and related to urban and rail transport 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, BALZOLA SP. z o.o. and ZKM w Gdańsku Sp. z o.o.

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

2.2. Backlog

The orders made by ZUE in connection with 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 2,159m 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 5m. The backlog relating to the supply of materials and equipment in 2018 is worth PLN 23m (net). To secure the performance of contracts, the Group signed a number of master agreements for the supply of strategic materials. The estimate security for the supply of strategic materials required to carry out the contracted construction works: rails – about 80%, breakstone – about 90%, railway switches – about 95% and sleepers – about 100%.

The value of the signed new construction contracts in 2018 is about PLN 569m out of which PLN 205m relates to city contracts.

At this report preparation date, ZUE has submitted the most economically advantageous tenders in connection with the tender procedures whose net value is approx. PLN 75m.

Regardless of this, the Issuer participates in tender procedures for the total estimated amount of approx. PLN 1.7bn.

It should be noted, however, that due to the growing costs of labour, materials and services, a considerable number of submitted tenders exceed the amount investors intend to spend on the project as a results of which tender procedures are repeatedly cancelled according to the law.

The companies within the Group participate in tenders both in Poland and abroad. The Group's focus is predominantly on the European market.

2.3. Issuer's major achievements or failures

In the three quarters of 2018, the Group and the Issuer reported a year-over-year increase in revenue; i.e. by 138% and by 139%, respectively. All profit items reported by both the Company and the Group in the reporting period were positive. In addition, the year saw an improvement in margins. Financial results are discussed in detail in the note no. 4.1.

By this report preparation date, no major events occurred other than the events described in detail in the note 2.4. and 2.5 below.

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

Factors and events with significant influence on the reported results are discussed in section 4.1 Discussion of financial results. No unusual factors or events that would have any significant influence on the Group's results occurred in the reporting period.

2.5. 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 Polskie Linie Kolejowe S.A. (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-Barłogi section. The agreement net value: PLN 22.9m. The agreement completion date: September 2020. **(Current report 7/2018)**

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 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)**

On 28 May 2018, the Company entered into the master agreement with the manufacturer of precast concrete products. The agreement dealt with the sale of building materials to the Company of the estimated total net value of approx. PLN 74m. The agreement will be performed on the basis of individual orders made by the Company. The agreement completion date: 2019. **(Current report 18/2018)**

On 5 June 2018, the Company learnt about the judgment delivered on the same date by the National Appeals Chamber (the Chamber). The Chamber ordered that the selection by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (the Contracting Authority) of the most economically advantageous tender submitted in the tender procedure concerning the reconstruction of the line of the Królewska, Podchorążych and Bronowicka Streets in Cracow, the reconstruction of tramway tracks, OCL network and dehydrating and lightening system and the reconstruction of colliding technical infrastructure be cancelled and the contractor that ranked first be excluded. The tender submitted by the Company ranked second. **(Current report 23/2018)**

On 14 June 2018, learnt about the cancellation by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie of the tender procedure for the Cracow project named: "Reconstruction of tram tracks along the Królewska Street from the Rollego Street to the Dietla Street, the reconstruction of the road system, pavements, paths, the associated technical infrastructure and the Krakowska-Dietla-Stradomska rail hub, the reconstruction of the Dietla Street from the Bożego Ciała Street to the Augustiańska Street and the reconstruction of the Piłsudski bridge over the Vistula river." The Company informed about the submission of the most economically advantageous tender in the current report 24/2018. **(Current report 26/2018)**

On 18 June 2018, the Company and Electren S.A. with registered office in Madrid (the Subcontractor) defined the terms of additional works that would be performed by the Subcontractor under the subcontractor agreement (the Agreement). The Agreement provides for the performance by the Subcontractor of the construction works on the Wyczerpy – Chorzew Siemkowice section (the Contract). The Company informed about the Contract performance in the current report 38/2017. After the scope of the works was extended, the Subcontractor would be paid the additional remuneration of approx. PLN 28m. Together with the remuneration for the initial scope of the works, the total value of the Agreement is approx. PLN 34m. **(Current report 27/2018)**

On 25 June 2018, the Company learnt about the cancellation by PKP Polskie Linie Kolejowe S.A. (the Contracting Authority) of the tender procedure for the project named: Development of design documentation and completion of construction works as part of "design-build" project named: LOT B – works on the railway line 131 of the Nakło Śląskie (29,000 km) – Kalina (66,800 km) section in connection with the Infrastructure and Environment Operational Programme (*POIiŚ*) 5.1-14: "Works on the railway line C-E-65 of the Chorzów Batory - Tarnowskie Góry – Karsznice – Inowrocław – Bydgoszcz – Maksymilianowo section" on the basis of Art. 93.1.4 of the Public Procurement Act. The Company informed about the submission of the lowest price tender in the current report 28/2018. **(Current report 29/2018)**

On 26 June 2018, the Company and the City of Bydgoszcz signed the contract in connection with the following project: "Reconstruction of rail transport infrastructure along the Wojska Polskiego Street from Magnuszewska terminus to Wojska Polskiego, Szpitalna, Szarych Szeregów and Bełzy transport hub." The Company informed about the submission and selection of the most economically advantageous tender in the current report 11/2018 and the current report 25/2018, respectively. The contract net value: PLN 52.8m. The contract gross value: PLN 65.0m. The project completion date: October 2019. **(Current report 31/2018)**

On 26 June 2018, the Company and Astaldi S.p.A. with registered office in Rome (the Counterparty) which provided for the rental of building machinery by the Company. Accordingly, the total net value of contracts entered into between the companies within the Group and the Counterparty since 9 May 2018 amounted to approx. PLN 21.9m. **(Current report 32/2018)**

On 29 June 2018, the Company learnt about the cancellation by Miasto Bydgoszcz - Zarząd Dróg Miejskich i Komunikacji Publicznej w Bydgoszczy [The City of Bydgoszcz – The Board of City Roads and Public Transport in Bydgoszcz] (the Contracting Authority) of the tender procedure for the project named: "Reconstruction of tram tracks and construction of bicycle lanes along the Toruńska Street in Bydgoszcz." The Company informed about the submission of the most economically advantageous tender in the current report 15/2018. The procedure was cancelled by the Contracting Authority according to Art. 93.1.4 of the Public Procurement Act. **(Current report 33/2018)**

On 5 July 2018, the agreement was signed between the Company and Electren S.A. with registered office in Madrid (the Subcontractor). The agreement dealt with the performance by the Subcontractor of specific construction works in connection with the Issuer's performance of the contract on the Częstochowa – Zawiercie section. The agreement net value: PLN 43.4m. The agreement completion date: July 2020. **(Current report 34/2018)**

On 17 July 2018, the Company and the City of Poznań entered into the contract in connection with the project named: "Reconstruction of the tramway from the Lecha estate to the Żegrze roundabout (section II)." The Company informed about the submission and selection of the most economically advantageous tender in the current reports 10/2018 and the current report 20/2018. The contract net value: PLN 82.6m. The contract gross value: PLN 101.5m. Project completion date: 16 months of the contract conclusion date. **(Current report 36/2018)**

On 19 July 2018, the consortium of ZUE (Leader), Przedsiębiorstwo Inżynieryjne "IMB-Podbeskidzie" sp. z o.o. (Partner) and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. (Parter) signed an annex to the contract with Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (ZIKiT) for the project named: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow." The Company informed about the abovementioned contract in the current report 24/2017. The annex provided for the additional works relating to the said project as a result of which the Consortium's remuneration for the contract performance had been increased to the net amount of PLN 201.7m (gross amount of PLN 248.0m) and the contract completion date has been postponed until 15 May 2020. The additional works specified in the annex would be performed by the Consortium Partners. **(Current report 37/2018)**

On 9 August 2018, the agreement was signed between the Company and Wadoma Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Nowy Sącz (the Subcontractor). The agreement dealt with the provision by the Subcontractor of design and construction services on the Chabówka – Zakopane and the Sucha Beskidzka – Chabówka sections. The Company informed thereof in the current report 5/2018 of 19 March 2018. The agreement net value: PLN 81m. The agreement completion date: 18 September 2021. **(Current report 39/2018)**

On 4 September 2018, the contract was entered into between the Company and Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (ZIKIT) in connection with the following project: "Reconstruction of the line of the Królewska, Podchorążych and Bronowicka Streets in Cracow, the reconstruction of tramway tracks, OCL network and dehydrating and lightening system and the reconstruction of colliding technical infrastructure" carried out as part of the project named: "Upgrade of tramway tracks and associated infrastructure." The Company informed about the selection of the most economically advantageous tender for the said project in the current report 35/2018. The contract net value: PLN 62.6m. The contract gross value: PLN 77.0m. The project completion date: 12 months of the contract date. **(Current report 42/2018)**

On 6 September 2018, the Company learnt about the cancellation by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (the Contracting Authority) of the tender procedure for the project named: "Maintenance and repair of tram infrastructure in Cracow in the period 2018-2021." The Company informed about the submission of the most economically advantageous tender in the current report 41/2018. The procedure was cancelled by the Contracting Authority according to Art. 93.1.4 of the Public Procurement Act. **(Current report 44/2018)**

Financial events:

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

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

On 20 July 2018, the Company and Bank Gospodarstwa Krajowego with registered office in Warsaw entered into the agreement for the bond line up to PLN 100m (the Limit) to secure the performed contracts, orders and agreements. The sublimit of PLN 40m was created for the provision of performance bonds. The maximum amount of a single bond other than a performance bond was PLN 50m. The revolving Limit is available until 19 July 2019. **(Current report 38/2018)**

On 21 August 2018, the Company published preliminary financial results for the first half of 2018. (**Current report 40/2018**)

Corporate events:

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

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. On 16 May 2018, the Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations **(Current report 9/2018 and Current report 16/2018)**

On 5 June 2018, the Company's Ordinary General Meeting resolved to allocate the entire net profit earned by the Company in the financial year 2017 to reserve funds. **(Current report 21/2018)**

On 26 June 2018, the Company received the notice from NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. according to which all investment funds managed by NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. exceeded 5% of votes at the Company's general meeting. **(Current report 30/2018)**

On 5 September 2018, the Company learnt about the registration on 29 August 2018 by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, of amendments to the Company's Articles of Association accepted under the Resolution no. 20 passed by the Company's Ordinary General Meeting on 5 June 2018. **(Current report 43/2018)**

2.6. Major events after the end of the reporting period

On 11 October 2018, the Company signed an annex (the Annex) to the contract with PKP PLK for the project named: Design and construction services and purchase of land in the area of the Medyka station in connection with the following project: "Investment works at the Medyka - Mościska II border crossing." The Company informed about the contract performance in the current report 49/2016. The Annex specified the scope of additional works and the schedule thereof. It also provided for the net remuneration of PLN 13.6m payable to the Company for its performance of the additional works. The completion date for the additional works was set as the end of July 2019 **(Current report 45/2018)**

On 29 October 2018, the Company learnt about the Company's submission of the most economically advantageous tender in the tender procedure for the preparation of design documentation and the completion of construction works as part of the following project: "Construction of the integrated transport system including a tunnel under the tracks of the Skarżysko Kamienna railway station." Contracting authority: PKP PLK. Net value of the tender submitted by the Company: PLN 69.1m. Gross value of the tender submitted by the Company: PLN 85.0m. The project completion date: 30 months. **(Current report 46/2018)**

On 29 October 2018, the Agreement was signed between the Company (the Consortium Leader) and STRABAG Infrastruktura Południe sp. z o.o. (the Subcontractor). The Agreement dealt with the provision by the Subcontractor of specific services defined by the parties in connection with the following project: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow" (the "Contract"). The Company informed about the Contract performance in the current report 24/2017 of 6 April 2017. The Agreement was signed by the Company for and on behalf of the Company and the remaining Consortium members (Przedsiębiorstwo Inżynieryjne "IMB-Podbeskidzie" sp. z o.o. – the Partner, and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. – the Partner). The Consortium assumed joint and several liability for the obligations under the Agreement. Net value of the Agreement signed on begalf of the Consortium: approx. PLN 35.3m (the Company's share in the Consortium: 34%). The Agreement completion date: May 2020. **(Current report 47/2018)**

On 31 October 2018, the Company's Management Board learnt about the notice published by PKP PLK in the Official Journal of the European Union of 31 October 2018. According to the said notice, PKP PLK intend to award a sole source contract to the Company in connection with the protection of civil engineering structures on the Dęblin – Lublin section as part of the project named: "Works on the Warszawa Wschodnia Osobowa – Dorohusk railway line no. 7 of the Warszawa – Otwock – Dęblin – Lublin section, the Otwock – Lublin section, stage I." The estimated total net value of the contract: PLN 30m. **(Current report 48/2018)**

After the acceptance by the supplier (the Counterparty) of an order for the supply of building materials to Railway gft, a subsidiary, the total net value of orders/agreements concluded by Railway gft and the Counterparty since 6 October 2017 is about PLN 21.2m. **(Current report 49/2018)**

2.7. Bonds, guarantees, credit lines and loans

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

As at 30 September 2018:

- The value of the bonds provided by the Group to third parties is PLN 530,583 thousand;
- The value of the bonds provided by the Company to third parties is PLN 520,651 thousand;
- The value of unused bond lines at the Group is PLN 428,027 thousand (including credit limits of PLN 80,000 thousand);
- The value of unused bond lines at the Company is PLN 427,298 thousand (including credit limits of PLN 80,000 thousand).

In the third quarter of 2018, ZUE entered into the bond agreement with Bank Gospodarstwa Krajowego whereby it was granted the limit of PLN 100,000 thousand.

In the reporting period, the Company took measures to expand the scope of bond lines.

ZUE may use the limits provided by banks for both bank guarantees and revolving credit facility. At the end of the reporting period, the limits are used for the bank guarantees.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the guarantees as at 30 September 2018 is PLN 20,594 thousand.

At the end of the reporting period, the value of the granted loans is PLN 3,197 thousand. The loans are discussed in the note 4.7.5.

In the three quarters of 2018, neither the Parent Company nor the subsidiaries guaranteed any loan or credit or jointly provided any bonds to a single entity or their subsidiary of any significant total value.

2.8. Unusual items influencing assets, liabilities, equity, net profit or cash flows

No unusual factors or events occurred in the reporting period.

2.9. Factors believed by the Issuer to have influence on the Group's development and results

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, asphalt, 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). Prices may also increase after certain fees (e.g. duties) have been imposed. Given the fluctuating prices of these materials, the companies within the Group 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 sharp increase in the number of tenders may have a negative influence on the Group's ability to engage certain subcontractors as well as the fees charged by them.

- **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 may 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 revenue may be transferred from the current to the next financial year.

- **Unstable EUR/PLN exchange rate**

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

- **Outcome of court proceedings**

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

2.10. Risks believed by the Group to have influence on the Group's results

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

Another risk has occurred in the past years and is related to the loss of financial liquidity by other entities operating in the same sector. Another factor with an influence on financial liquidity includes the split payment mechanism effective from July 2018. A use of split payment by the buyers limits the financial liquidity of the sellers because they are 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 people practicing the professions which require proper licences, skills and experience, qualified workers may be difficult to find and the costs of employment may grow, which may have an influence on 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. In addition, transport fees may grow.

- **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 another means of access 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 improper contract performance by key counterparties**

In order to carry out construction contracts, the Group enters into agreements with suppliers, subcontractors, consortium members and investors. There is a risk of improper performance of the agreements by counterparties. For instance, the performance of tasks by a subcontractor may be faulty or inconsistent with the agreement or a well-grounded claim may be rejected by an investor. These factors may have a negative influence on the Group's financial results.

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

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

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

According to the Polish Civil Code, a contractor commissioned by a company within the Group to execute a construction project may at any time demand the payment guarantee from the company (its client) up to the amount of remuneration payable under a contract and other agreements. The failure to provide a satisfactory payment guarantee creates an obstacle to the completion of construction 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 the 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 the winning of new contracts**

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

- **Risk related to the 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. The Issuer has employed a number of solutions whose aim is to reduce the risk of corruption, including ethical management policy and whistle-blower protection.

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.

2.11. 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 on the construction market primarily take place in spring, summer and autumn.

2.12. 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 Polish rail infrastructure construction market enjoys broad prospects in the forthcoming years.

Urban infrastructure market

A significant number of tender procedures for urban infrastructure construction projects started in 2018. The Company believes that this trend will continue in 2018 and 2019 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. The urban infrastructure construction market is the second major market for the Group.

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 Chairperson
Barbara Nowak	Audit Committee Member
Piotr Korzeniowski	Audit Committee Member

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

3.2. Structure of the share capital

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

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

3.3. Treasury shares

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

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

(PLN '000, unless otherwise provided)

3.4. Shareholding structure

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

Shareholder	Number of shares/votes at 26 November 2018	% of the share capital/total number of votes	Number of shares/votes at the date of publication of the last interim report (1)	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
MetLife OFE	1,400,000(2)	6.08	1,400,000(2)	6.08
PKO Bankowy OFE	1,500,000(3)	6.51	1,500,000(3)	6.51
NN Investment Partners TFI	1,190,437(4)	5.17	-	-
Other	4,539,326(5)	19.71	5,729,763(5)	24.88
Total	**23,030,083**	**100**	**23,030,083**	**100**

(1) Publication of the last interim report (Consolidated Report of the Group for H1 2018): 4 September 2018.
(2) Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of ZUE held on 8 December 2014 provided in the current report 41/2014 of 8 December 2014.
(3) Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of ZUE held on 18 June 2014 provided in the current report 31/2014 of 18 June 2014.
(4) Shareholding on the basis of the notice of exceeding 5% of the total vote of 26 June 2018 referred to by the Issuer in the current report 30/2018 of 26 June 2018.
(5) Including 264,652 ZUE shares repurchased by the Company as part of the buy-back of own shares.

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

Name	Position	Number of shares/votes at 26 November 2018	% of the share capital/total number of votes	Changes in shareholding since the publication of the last interim report; i.e. 4 September 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 preparation of the last quarterly 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 other than presented in this report occurred in the reporting period.

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.

(PLN '000, unless otherwise provided)

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.

On 5 June 2018, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2017 as recommended by the Management Board of ZUE.

4. Financial information

4.1. Discussion of financial results

Discussion of major items of the statement of profit or loss

2018 saw the performance of the majority of railway contracts won in previous years. The urban infrastructure "build" projects won in 2018 were also carried out. These factors contributed to an incremental year-on-year increase in the Group's revenue.

In the three quarters of 2018, the Group generated sales revenue to the tune of PLN 555,855 thousand – up by 138% when compared with sales revenue reported in the analogous period of 2017. ZUE reported sales revenue of PLN 507,241 thousand in the reporting period (a year-on-year increase by 139%).

All profit items reported by both the Company and the Group in the nine months of 2018 were positive. Sales and design activities conducted by the companies within the Group produced net profit, which influenced the performance of the entire Group.

The Group's gross profit for the three quarters of 2018 increased by PLN 13,752 thousand compared to the analogous period of 2017. ZUE's gross profit increased over the year by PLN 11,063 thousand.

The Group's operating profit in Q3 ended 30 September 2018 improved over the year by PLN 13,198 thousand (by PLN 10,466 thousand for ZUE).

Compared to the analogous period of 2017, the Group posted a rise in net profit by PLN 14,112 thousand. ZUE reported a year-on-year increase in gross profit by PLN 11,103 thousand.

Comparison of the results reported by the Group and ZUE:

Item	Group		ZUE	
	30-09-2018	30-09-2017	30-09-2018	30-09-2017
Revenue	555,855	233,459	507,241	212,280
Gross profit (loss)	17,506	3,754	13,834	2,771
Operating profit (EBIT) **	1,551	-11,647	594	-9,872
EBITDA***	9,601	-4,350	8,525	-2,638
Pre-tax profit (loss)	2,199	-13,992	1,766	-11,748
Net profit (loss)	1,968	-12,144	1,252	-9,851

* Operating profit + depreciation / amortisation.
** EBIT, EBITDA measures not defined according to IFRS.

General and administrative expenses of the Group in the period under analysis stood at PLN 15,858 thousand and grew year-on-year by 2%. General and administrative expenses of the Company in the period under analysis stood at PLN 13,187 thousand and grew year-on-year by 4%.

Other operating income reported by the Group in the reporting period amounted to PLN 1,135 thousand and decreased year-over-year by 63% (ZUE: PLN 823 thousand – a year-on-year decrease by 57%). See the note 4.3.3 for details.

Other operating expenses reported by the Group amounted to 1,232 thousand – down by 40% when compared with the analogous figure reported in the analogous period of 2017 (ZUE: PLN 876 thousand – a year-on-year decrease by 53%). See the note 4.3.4 for details.

The Group's financial income was PLN 1,714 thousand – up by 114% compared to the year-ago quarter (ZUE: PLN 1,846 thousand – up by 84% compared to Q3 2017). See the note 4.3.5 for details.

(PLN '000, unless otherwise provided)

The Group's financial expenses in the reporting period were PLN 1,066 thousand – down by 66% compared to the year-ago quarter (ZUE: PLN 674 thousand – down by 77% compared to Q3 2017). See the note 4.3.6 for details.

Discussion of major balance sheet items

At the end of the reporting period, the total assets and liabilities of the Group amounted to PLN 548,405 thousand and the total assets and liabilities of the Company amounted to PLN 523,288 thousand.

The following factors had the biggest influence of the Group's total assets and liabilities:

Item	Change compared to 31-12-2017	Balance at 30-09-2018	Description
Assets			
Property, plant and equipment	9,265	104,288	Increase as a result of investments in machinery and vehicles.
Inventories	19,900	47,838	Increase as a result of greater need of building materials in connection with the performance of contracts.
Trade and other receivables	5,500	123,440	Ongoing settlements relating to the performed contracts.
Valuation of long-term construction contracts	108,182	182,390	Greater progress of works relating to the performed contracts.
Cash and cash equivalents	-95,007	22,741	Use of own resources to conduct operating activities.
Liabilities			
Trade and other payables	24,721	248,283	Ongoing settlements relating to the performed contracts.
Loans and bank credits and other financing sources	9,572	35,704	Conclusion of new leases.

Discussion of items of the statement of cash flows

The Group's cash flows from operating activities of PLN (-) 84,054 thousand were mainly influenced by changes in retentions, payables, receivables and inventories in connection with the performance of construction contracts.

Cash flows from investing activities of PLN (-) 17,572 thousand were mainly influenced by the purchase of non-current assets (specialist machinery). The transactions were financed by a loan and own resources.

Cash flows from financing activities of PLN 6,597 thousand were influenced by the leaseback used to finance the purchase of specialist equipment and vehicles, the decrease in liabilities under leases and the use of credit lines by subsidiaries.

	Group		**ZUE**	
	Period ended 30-09-2018	**Period ended 30-09-2017**	**Period ended 30-09-2018**	**Period ended 30-09-2017**
Cash flows from operating activities	-84,054	-65,839	-82,887	-65,270
Cash flows from investing activities	-17,572	39,804	-17,634	39,652
Cash flows from financing activities	6,597	6,827	6,114	6,935
Total net cash flows	**-95,029**	**-19,208**	**-94,407**	**-18,683**
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	22,741	43,101	21,759	42,119

Discussion of results reported by segments

The total revenue generated by the Group in the three quarters of 2018 is PLN 555,855 thousand. The biggest portion has been earned from construction activities.

(PLN '000, unless otherwise provided)

	Construction	Sales	Design	Exclusions	Total
Sales revenue	507,241	47,241	10,916	-9,543	555,855
Gross profit	13,834	2,535	1,688	-551	17,506

Construction activities conducted by ZUE, sales activities conducted by Railway gft and design activities conducted by BPK Poznań produced positive results in the three quarters of 2018. More information about the segments can be found in the note 4.7.12.

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

The Company did not publish any financial projections for the financial year 2018.

4.3. Notes to the statement of comprehensive income

4.3.1. Revenue

	Period ended 30-09-2018	Period ended 30-09-2017
Revenue from construction contracts	503,630	212,487
Revenue from the rendering of services	8,930	8,954
Revenue from the sale of goods, raw and other materials	43,295	12,018
Total	**555,855**	**233,459**

The Group's revenue in the period from 1 January to 30 September 2018 amounted to PLN 555,855 thousand and increased by 138% over the analogous figure reported in the analogous period of 2017.

In the three quarters of 2018, the Group carried out works in the territory of Poland. In addition, ZUE generated revenue of PLN 198 thousand from the provision of equipment services in Slovakia.

4.3.2. Operating expenses

	Period ended 30-09-2018	Period ended 30-09-2017
Change in products	-933	-1,021
Depreciation and amortization	8,050	7,297
Consumption of raw and other materials	239,294	69,982
Contracted services	187,813	71,581
Costs of employee benefits	66,766	50,130
Taxes and charges	1,274	1,262
Other expenses	7,860	11,827
Value of goods and materials sold	44,083	34,146
Total	**554,207**	**245,204**

The increase in operating expenses was mainly influenced by the performance of the 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 30-09-2018	Period ended 30-09-2017
Cost of sales	538,349	229,705
General and administrative expenses	15,858	15,499
Total	**554,207**	**245,204**

The Group's general and administrative expenses between 1 January and 30 September 2018 stood at PLN 15,858 thousand and increased by 2% over the Group's general and administrative expenses reported in Q3 ended 30 September 2017.

(PLN '000, unless otherwise provided)

Depreciation and amortisation

	Period ended 30-09-2018	Period ended 30-09-2017
Depreciation of property, plant and equipment	7,420	6,619
Amortisation of intangible assets	377	424
Depreciation of investments in real property	253	254
Total	**8,050**	**7,297**

4.3.3. Other operating income

	Period ended 30-09-2018	Period ended 30-09-2017
Gain on disposal of assets:	**135**	**157**
Gain on disposal of non-current assets	135	157
Other operating income:	**1,000**	**1,988**
Damages and penalties	142	55
Release of write-downs on receivables	49	359
Refund of costs of court proceedings	592	78
Release of provisions for court cases	86	0
Release of write-downs on inventories	57	31
Release of write-downs on investment property	0	1,000
Other	74	465
Total	**1,135**	**2,145**

In order to make the financial statements clearer, reinvoices and damages have been presented by the Group jointly since September 2018 (income and expenses according to their netted balance). The comparative data has been accordingly restated.

4.3.4. Other operating expenses

	Period ended 30-09-2018	Period ended 30-09-2017
Loss on disposal of assets:	**0**	**0**
Loss on disposal of non-current assets	0	0
Other operating expenses:	**1,232**	**2,047**
Donations	18	14
Damages and penalties	514	445
Write-downs on receivables	428	1,289
Costs of litigation	247	126
Other	25	173
Total	**1,232**	**2,047**

In order to make the financial statements clearer, reinvoices and damages have been presented by the Group jointly since September 2018 (income and expenses according to their netted balance). The comparative data has been accordingly restated.

4.3.5. Financial income

	Period ended 30-09-2018	Period ended 30-09-2017
Interest income:	**550**	**442**

(PLN '000, unless otherwise provided)

Interest on bank deposits	386	145
Interest on loan	78	6
Interest on receivables	86	291
Other financial income:	**1,164**	**360**
Foreign exchange gains	4	0
Discount of long-term items	1,158	47
Realisation of financial instruments	0	309
Other	2	4
Total	**1,714**	**802**

4.3.6. Financial expenses

	Period ended 30-09-2018	Period ended 30-09-2017
Interest expenses:	**860**	**844**
Interest on credits	192	207
Interest on loans	5	5
Interest on finance lease liabilities	132	175
Interest on liabilities relating to financing of property, plant and equipment	461	230
Interest on trade and other payables	70	227
Other financial expenses:	**206**	**2,303**
Foreign exchange losses	69	664
Discount of long-term items	26	1,292
Write-down on investments in related entities	58	0
Other	53	347
Total	**1,066**	**3,147**

4.3.7. Corporate income tax

Corporate income tax recognised in the statement of comprehensive income

	Period ended 30-09-2018	Period ended 30-09-2017
Current income tax	7	-20
Deferred tax	224	-1,828
Total tax expense/income	**231**	**-1,848**

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.

Income tax according to effective tax rate

	Period ended 2018-09-30	Period ended 2017-09-30
Gross profit (loss)	**2,199**	**-13,992**
Income tax at the applicable rate of 19%	418	-2,658

(PLN '000, unless otherwise provided)

Effect of the tax recognition of:	**-3,949**	**148**
Use of tax losses brought forward	176	427
- Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	17,228	12,459
- Revenue not classified as revenue under tax regulations and taxable revenues that are not balance sheet revenue	21,001	11,884
Revaluation of deferred tax assets	3,538	2,510
Deferred tax	224	-1,828
Income tax adjustments	0	0
Income tax paid /(tax refund) on income earned abroad	0	-20
Income tax according to effective tax rate	**231**	**-1,848**
Effective tax rate	11%	13%

Current tax assets and liabilities

	Balance at 30-09-2018	Balance at 31-12-2017
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	7	0

Deferred tax

	Balance at 30-09-2018	Balance at 30-09-2017
Deferred tax balance at the beginning of the period	**8,024**	**8,683**
Temporary differences relating to deferred tax assets:	**42,073**	**26,163**
Provisions for expenses and accruals	19,978	10,706
Discount of receivables	344	502
Operating lease liabilities	1,131	153
Write-downs	1,508	1,738
Bonds and insurance settled in time	1,721	1,536
Tax work in progress	17,137	10,996
Valuation of long-term contracts	23	175
Other	231	357
Temporary differences relating to deferred tax liabilities:	**45,665**	**25,502**
Valuation of long-term contracts	34,654	15,733
Property, plant and equipment and intangible assets	10,353	9,125
Discount of payables	624	384
Other	34	260
Unused tax losses and other tax credits to be settled in future:	**11,393**	**9,862**
Tax losses	11,393	9,862
Total temporary differences relating to deferred tax assets:	**53,466**	**36,025**
Total temporary differences relating to deferred tax liabilities:	**45,665**	**25,502**
Deferred tax balance at the end of the period	**7,801**	**10,523**
Change in deferred tax, including:	**-223**	**1,840**
- recognised in income	-224	1,828

- recognised in equity	1	12

Deferred tax recognised in equity is a result of calculating tax on actuarial gains/losses presented in comprehensive income.

(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 30-09-2018	Period ended 30-09-2017
Revenue from long-term construction contracts	486,665	201,120
Costs of long-term construction contracts	471,974	199,811
Gross profit (loss) on long-term contracts	**14,691**	**1,309**

	Balance at 30-09-2018	Balance at 31-12-2017
Assets (selected items)	**209,879**	**98,878**
- Valuation of long-term construction contracts	182,390	74,208
- Advance payments for contracts	17,005	10,256
- Retentions on construction contracts retained by customers	10,484	14,414
Liabilities (selected items)	**174,589**	**132,814**
- Valuation of long-term construction contracts	124	724
- Provisions for contract costs	79,675	34,839
- Advance payments for contracts	65,235	75,128
- Retentions on construction contracts retained for suppliers	18,646	13,049
- Provisions for warranty claims	9,823	8,458
- Provisions for expected losses on contracts	1,086	616

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

Provisions for contract costs are included in accruals.

4.4.2. Retentions on construction contracts

	Balance at 30-09-2018	Balance at 31-12-2017
Retained by customers – to be repaid after 12 months	10,182	9,696
Retained by customers – to be repaid within 12 months	302	4,718
Total retentions on construction contracts retained by customers	**10,484**	**14,414**
Retained for suppliers – to be repaid after 12 months	11,549	6,254
Retained for suppliers – to be repaid within 12 months	7,097	6,795
Total retentions on construction contracts retained for suppliers	**18,646**	**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 decreased at the end of the third quarter of 2018 after they had been returned by the Bank following the expiry of the term thereof.

Cash deposits increased at the end of the third quarter of 2018 after they had been retained for subcontractors as a result of their involvement in the performance of contracts.

(PLN '000, unless otherwise provided)

4.4.3. Provisions

Change in provisions

Provisions	01-01-2018	Created	Used	Released	Reclassified	30-09-2018	Item
Long-term provisions:	**7,644**	**2,426**	**200**	**118**	**-737**	**9,015**	
Provisions for employee benefits	1,888	61	0	0	0	1,949	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,756	2,365	200	118	-737	7,066	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	**14,426**	**12,519**	**10,971**	**872**	**737**	**15,839**	
Provisions for employee benefits	10,892	11,618	10,393	259	0	11,858	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,702	0	558	124	737	2,757	Short-term provisions
Provision for loss on contracts	616	873	0	403	0	1,086	Short-term provisions
Other provisions	216	28	20	86	0	138	Short-term provisions
Total provisions:	**22,070**	**14,945**	**11,171**	**990**	**0**	**24,854**	

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 retirement or pension gratuities.

Liabilities under employee benefits (long-term) include long-term liabilities relating to the company social benefit fund.

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 30-09-2018	Balance at 31-12-2017
Trade receivables	117,859	116,820
Write-downs on trade receivables	-15,845	-13,893
Receivables from the state budget other than corporate income tax	0	438
Advance payments	17,005	10,256
Other receivables	4,421	4,319
Total trade and other receivables	**123,440**	**117,940**

(PLN '000, unless otherwise provided)

The Group receives advance payments from Investors (see Liabilities) and transfers them also to subcontractors to ensure the 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 on trade receivables influencing the profit or loss includes the release of write-downs of PLN 49 thousand and the creation of write-downs of PLN 428 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by the Group for the penalties and damages that are not the Company's revenue at the moment of issue.

<u>Concentration of (gross) trade receivables that exceed 10% of total receivables:</u>

	Balance at 30-09-2018
Counterparty A	78,462
Total	**78,462**

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 30-09-2018	**Balance at 31-12-2017**
Trade payables	95,882	96,216
Payables to the state budget other than corporate income tax	7,069	16,965
Accruals	80,046	35,110
Other payables	51	143
Advance payments	65,235	75,128
Total trade and other payables	**248,283**	**223,562**

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.

4.6. Debt and management of capital and liquidity

4.6.1. Loans and bank credits and other financing sources

	Balance at 30-09-2018	**Balance at 31-12-2017**
Long-term	**15,996**	**11,224**
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	12,918	7,714
Finance lease liabilities	3,078	3,510

(PLN '000, unless otherwise provided)

Short-term	**19,708**	**14,908**
Bank credits	6,772	5,851
Received loans	253	250
Liabilities relating to financing of property, plant and equipment	10,205	6,680
Finance lease liabilities	2,478	2,127
Total	**35,704**	**26,132**

Liabilities relating to the financing of property, plant and equipment include leasebacks. In the reporting period, the Group signed the agreements for the purchase of piling station of PLN 3,326 thousand, wagons of PLN 8,510 thousand and two-way rail welding machine of PLN 5,483 thousand. For presentation purposes, leaseback has been named the agreement for financing of property, plant and equipment.

Summary of credit agreements

No.	Bank	Description	Principal/limit according to the agreement as at 30-09-2018	Use as at 30-09-2018	Interest	Repayment date
1	mBank S.A. (ii)	Overdraft	10,000	0	O/N WIBOR + margin	10-05-2019
2	mBank S.A. (i)	Cooperation agreement	50,000	0	3M WIBOR + margin	17-07-2020
		including:				
		sublimit for bonds	50,000	0		
		sublimit for working credit facilities	30,000	0		
3	BGŻ BNP PARIBAS S.A. (i)	Multipurpose credit line agreement	170,000	71,617	1M WIBOR + margin	24-10-2019
		including:				
		sublimit for bonds	170,000	71,617		
		sublimit for working credit facilities	20,000	0		
4	PEKAO S.A. (i)	Multipurpose credit limit agreement	100,000	71,537	1M WIBOR + margin	30-11-2018
		including:				
		sublimit for bonds	100,000	71,537		
		sublimit for working credit facilities	20,000	0		
5	BGŻ BNP Paribas S.A.	Multipurpose credit line	300	276	1M WIBOR + margin	05-11-2019
6	mBank S.A. (iv)	Overdraft	500	40	O/N WIBOR + margin	07-06-2019
7	mBank S.A. (iii)	Non-revolving credit	2,000	455	1M WIBOR + margin	25-11-2019
8	mBank S.A.	Revolving credit	5,000	5,000	1M WIBOR + margin	23-08-2019
9	BGŻ BNP	Revolving credit	3,000	1,000	3M WIBOR +	06-08-2019

(PLN '000, unless otherwise provided)

Paribas S.A.	agreement		margin
Total use of credits at the Group		**6,772**	
Total use of bonds at the Group		**143,154**	

(i) ZUE may use the available credit limit for bank guarantees.
(ii) Annex of 9 May 2018 whereby the limit was raised to PLN 10,000 thousand.
(iii) New agreement of 26 April 2018.
(iv) Annex of 5 June 2018 whereby the limit was raised to PLN 500 thousand.

Security and liabilities relating to concluded credit agreements:

1. **Overdraft** – security: bill of exchange.
2. **Cooperation agreement** – security: mortgage, borrower's statement about submission to enforcement.
3. **Multipurpose credit line agreement** – security: bill of exchange, cash deposit for the bonds expiring after 37 months; security deposit of PLN 4,000 thousand, registered pledge on non-current assets owned by the borrower; assignment of rights under policy; borrower's statement about submission to enforcement.
4. **Multipurpose credit limit agreement** – security: assignment of claims; registered pledge on non-current assets owned by the borrower; assignment of rights under policy; cash deposit for each bond effective after contract performance; borrower's statement about submission to enforcement.
5. **Multipurpose credit line** – security: blank bill of exchange; borrower's statement about submission to enforcement.
6. **Overdraft** – security: blank bill of exchange; ZUE's guarantees.
7. **Non-revolving credit** – security: blank bill of exchange; ZUE's guarantees; assignment of claims.
8. **Working credit facility** – security: ZUE's guarantees; registered pledge on inventories; blank bill of exchange; statements about submission to enforcement; assignment of rights under insurance policy.
9. **Revolving credit** – security: bill of exchange; statements about submission to enforcement.

The following changes were made to the Group's credit agreements in the reporting period:

- mBank – Overdraft – Annex of 9 May 2018 whereby the limit was raised by PLN 5,000 thousand.
- mBank – Overdraft – Annex of 5 June 2018 whereby the limit was raised by PLN 200 thousand.
- mBank – Working credit facility for contract prefinancing of PLN 2,000 thousand to be repaid by 15 May 2018. The credit was repaid before this date on 18 January 2018.
- mBank – Working credit facility for contract prefinancing of PLN 2,000 thousand to be repaid by 25 November 2019, the agreement was signed on 26 April 2018 and replaced the credit repaid on 18 January 2018.
- BGŻ BNP Paribas S.A. – Non-revolving credit – Annex of 22 May 2018 whereby the repayment date was extended until 30 July 2018. The credit was repaid by this date.

The following changes were made to the Group's credit agreements after the end of the reporting period:

- BGŻ BNP Paribas S.A. – Multipurpose credit line agreement – the bank approved of extending the credit for another year; i.e. until 24 October 2019.
- BGŻ BNP Paribas S.A. – Multipurpose credit line agreement – the bank approved of extending the credit for another year; i.e. until 5 November 2019; the limit was raised by PLN 300 thousand.
- BGŻ BNP Paribas S.A. – Revolving credit agreement – the bank approved of extending the credit for another year; i.e. until 6 August 2019; the limit was raised by PLN 1,000 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 analyses own resources required for day-to-day operations, the schedule of contract financing, the cost of capital and the risks associated with each class of capital.

	Balance at 30-09-2018	Balance at 31-12-2017
Long- and short-term loans and bank credits and other financing sources	35,704	26,132
Long- and short-term other financial liabilities	456	666
Total financial liabilities	**36,160**	**26,798**

(PLN '000, unless otherwise provided)

Cash and cash equivalents	22,741	117,748
Net debt	**13,419**	**-90,950**
Equity	211,373	209,419
Net debt to equity ratio	**6.35%**	**-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 use of credits by subsidiaries.

The Group disclosed a positive net debt ratio because total financial liabilities at the end of Q3 2018 exceeded the Group's cash reported by the Group for the same period.

The Group mainly uses own resources (especially ZUE's) and credit limits to finance day-to-day operations.

4.6.3. Cash and cash equivalents

	Balance at 30-09-2018	Balance at 31-12-2017
Cash on hand and at banks	17,741	106,748
Bank deposits up to three months	5,000	11,000
Total	**22,741**	**117,748**

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

The cash at 30 September 2018 does not include the cash of PLN 14,747 thousand kept on escrow accounts. These funds are owed to the Company and consortium members. ZUE does not exercise a full control over the cash and is not free to use it without the consortium's consent. Accordingly, the Company believes that the cash cannot be defined as an asset and is not presented in the balance sheet as at 30 September 2018. As at 31 December 2017, the cash on escrow accounts maintained by ZUE was PLN 9,998 thousand.

Discussion of items of the statement of cash flows

The Group's cash flows from operating activities of PLN (-)84,054 thousand were mainly influenced by changes in retentions, payables, receivables and inventories in connection with the performance of construction contracts.

Cash flows from investing activities of PLN (-)17,572 thousand were mainly influenced by the purchase of non-current assets (specialist machinery). The transactions were financed by a loan and own resources.

Cash flows from financing activities of PLN 6,597 thousand were influenced by the leaseback used to finance the purchase of specialist equipment, the decrease in liabilities under leases and the use of credit lines by subsidiaries.

	Group		ZUE	
	Period ended 30-09-2018	Period ended 30-09-2017	Period ended 30-09-2018	Period ended 30-09-2017
Cash flows from operating activities	-84,054	-65,839	-82,887	-65,270
Cash flows from investing activities	-17,572	39,804	-17,634	39,652
Cash flows from financing activities	6,597	6,827	6,114	6,935
Total net cash flows	**-95,029**	**-19,208**	**-94,407**	**-18,683**
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	22,741	43,101	21,759	42,119

(PLN '000, unless otherwise provided)

4.7. Other 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	4,695	18,647	74	**23,416**	10,564	945	34,925
Adjustment		0	11	0	-11	0	**0**	0	0	0
Transfer to non-current assets		0	0	0	0	0	**0**	12,850	4,650	17,500
Sale/liquidation		0	0	2,003	1,180	82	**3,265**	0	0	3,265
Balance at	**30 September 2018**	**0**	**26,173**	**49,531**	**84,843**	**2,263**	**162,810**	**916**	**0**	**163,726**

Depreciation		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at	**1 January 2018**	**0**	**7,768**	**21,513**	**23,408**	**1,854**	**54,543**	**0**	**0**	**54,543**
Elimination on disposal of assets		0	0	1,506	938	81	**2,525**	0	0	2,525
Depreciation expense		0	712	2,401	4,208	99	**7,420**	0	0	7,420
Balance at	**30 September 2018**	**0**	**8,480**	**22,408**	**26,678**	**1,872**	**59,438**	**0**	**0**	**59,438**
Carrying amount										
Balance at	**1 January 2018**	**0**	**18,394**	**25,326**	**43,979**	**417**	**88,116**	**3,202**	**3,705**	**95,023**

(PLN '000, unless otherwise provided)

Balance at	**30 September 2018**	**0**	**17,693**	**27,123**	**58,165**	**391**	**103,372**	**916**	**0**	**104,288**

No impairment losses were recognised by the Group 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	**30 September 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	125	128	0	0	0	253
Balance at	**30 September 2018**	**0**	**1,615**	**2,006**	**0**	**0**	**0**	**3,621**

Carrying amount

(PLN '000, unless otherwise provided)

Balance at	**1 January 2018**	**126**	**2,761**	**2,704**	**0**	**0**	**0**	**5,591**
Balance at	**30 September 2018**	**126**	**2,636**	**2,587**	**0**	**0**	**0**	**5,349**

At 30 September 2018, the investment property included the real property in Kościelisko (plots no. 2001 and 2491).

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.

The investment property was measured at purchase price less impairment losses. The Group did not derive any income from the lease of the investment property in 2017 or 2018.

(PLN ‘000, unless otherwise provided)

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 30-09-2018	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, the Group saw no grounds to recognise the impairment of PRK goodwill. Goodwill impairment test 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 17,478 thousand.

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

Item:	Own resources	Finance lease	Leaseback	Total
Intangible assets, including:	**42**	**0**	**0**	**42**
- leasehold land	0	**0**	**0**	**0**
Property, plant and equipment, including:	**-1,869**	**1,975**	**17,319**	**17,425**
- buildings and structures	0	0	0	0
- plant and equipment	4,694	0	3,326	8,020
- vehicles	16,673	1,975	13,993	32,641
- other	74	0	0	74
- non-current assets under construction	10,564	0	0	10,564
- settlement of non-current assets under construction for ongoing investments	-12,850	0	0	-12,850
- leaseback	-17,319	0	0	-17,319
- current advance payments	945	0	0	945
- settlement of advance payment from prior period for ongoing investments	-4,650	0	0	-4,650
Investment property	**11**	**0**	**0**	**11**
Equity investments	**0**	**0**	**0**	**0**
Total investments	**-1,816**	**1,975**	**17,319**	**17,478**

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

- Purchase of two-way rail welding machine – PLN 5,483 thousand (leaseback).
- Purchase of EAOS wagons worth PLN 4,575 thousand (leaseback).
- Purchase of Smmps wagons worth PLN 3,935 thousand (leaseback).
- Complete overhauls of machines and vehicles – PLN 3,387 thousand.

(PLN '000, unless otherwise provided)

- Purchase of pile driver – PLN 3,326 thousand (leaseback).
- Purchase of cars – PLN 1,975 thousand (lease).
- Purchase of wrenches – PLN 177 thousand.
- Purchase of aerial platform – PLN 148 thousand.
- Purchase of electronic tacheometers – PLN 62 thousand.
- Purchase of hardware – PLN 53 thousand.
- Purchase of storage containers – PLN 44 thousand.

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

The pile driver, wagons and two-way rail welding machine were initially financed by own resources.

The amount recognized in the statement of cash flows is the purchase of PLN 15,413 thousand. The difference is a result of actual payments, leases and the settlements of advance payments and non-current assets under construction.

4.7.5. Advanced loans

	Balance at 30-09-2018	Balance at 31-12-2017
Loans advanced to related entities	80	66
Loans advanced to other entities	3,468	279
Impairment losses	-351	-335
Total	**3,197**	**10**

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

4.7.6. Inventories

	Balance at 30-09-2018	Balance at 31-12-2017
Goods, raw and other materials	46,218	27,405
Work in progress	1,421	334
Finished goods	199	199
Total	**47,838**	**27,938**

Inventories increased after they had been 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.

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 30 September 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)	10,873	0	0	0	20,316
Trade receivables	117,859	0	0	0	0

Other financial liabilities	0	0	0	0	456
Advanced loans	3,197	0	0	0	0
Cash and cash equivalents	22,741	0	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	35,704
Trade payables	0	0	0	0	95,882
Total	**154,670**	**0**	**0**	**0**	**152,358**

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

4.7.8. Transactions with related entities

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

(PLN '000)

	Receivables		**Payables**	
	Balance at		**Balance at**	
	30-09-2018	**31-12-2017**	**30-09-2018**	**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**	
	30-09-2018	**30-09-2017**	**30-09-2018**	**30-09-2017**
RTI	3	3	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	468
Total	**3**	**3**	**0**	**468**

	Advanced loans		**Financial income (interest on loans)**	
	Balance at		**Period ended**	
	30-09-2018	**31-12-2017**	**30-09-2018**	**30-09-2017**
RTI	21	10	0	0
RTI Germany	59	56	1	1
Wiesław Nowak	0	0	0	0
Total	**80**	**66**	**1**	**1**

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.

On 19 June 2018, ZUE and RTI Germany signed an annex no. 3 to the loan agreement of 31 May 2016 whereby the loan and interest repayment date was extended until 20 June 2019.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the said guarantees at 30 September 2018 amounted to PLN 20,594 thousand. ZUE is paid for guaranteeing the subsidiaries' liabilities.

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

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

Pending major court proceedings concerning claims:

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

On 14 August 2014, the Petitioner (BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) filed a lawsuit against the Defendant (PKP Polskie Linie Kolejowe S.A.). The Petitioner sued the Defendant for the contractual penalty of PLN 72,835,010.99 plus interest from 18 August 2012 until payment (with PLN 18,521,943.30 plus interest from 18 August 2012 until payment attributable to the Company) for the Defendant's delay in the handover of the Construction Site. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. 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.

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."

Cases concerning the following project: "Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III."

On 30 December 2016, the consortium of:

1) OHL ŹS, a.s. (Leader);

2) Swietelsky Baugesellschaft m.b.H;

(PLN '000, unless otherwise provided)

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

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

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

4.7.10. Contingent assets and liabilities

Contingent assets

	Balance at 30-09-2018	Balance at 31-12-2017
Bonds	58,175	36,949
Guarantees	55	54
Bills of exchange	13,690	5,066
Total	**71,920**	**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.

Contingent liabilities

	Balance at 30-09-2018	Balance at 31-12-2017
Bonds	530,583	485,785
Guarantees	20,594	17,044
Bills of exchange	348,089	339,382
Mortgages	54,259	54,259
Pledges	24,545	17,048
Total	**978,070**	**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 with BGŻ BNP PARIBAS and PEKAO whereby limits had been raised and the new bond limit agreement with BGK. 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.

(PLN '000, unless otherwise provided)

4.7.11. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the nine months ended 30 September 2018 or the nine months ended 30 September 2017.

4.7.12. 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.

Reporting segments results for the three quarters of 2018:

	Construction	Sales	Design	Exclusions	Total
Revenue	**507,241**	**47,241**	**10,916**	**-9,543**	**555,855**
including:					
Inter-segment revenues	398	5,476	6,326	-12,200	0
Revenue from external customers,	506,843	41,765	4,590	2,657	555,855
including:					
Revenue from construction contracts	496,382	0	10,916	-3,668	503,630
Revenue from the rendering of services	9,245	182	0	-497	8,930
Revenue from the sale of goods, raw and other materials	1,614	47,059	0	-5,378	43,295
Gross profit on sales	**13,834**	**2,535**	**1,688**	**-551**	**17,506**
Financial income / expenses	1,172	-437	-101	14	648
Interest received	213	0	0	-2	211
Interest paid	-591	-184	-10	0	-785
Pre-tax profit	**1,766**	**708**	**234**	**-509**	**2,199**
Corporate income tax	514	-186	0	-97	231

(PLN '000, unless otherwise provided)

Net profit	**1,252**	**894**	**234**	**-412**	**1,968**
Depreciation and amortisation	7,931	5	119	-5	8,050
Property, plant and equipment	101,351	4	191	2,742	104,288
Non-current assets	166,758	410	869	-522	167,515
Total assets	**523,288**	**20,256**	**16,406**	**-11,545**	**548,405**
Total payables	**311,673**	**19,661**	**15,958**	**-10,260**	**337,032**

In the three quarters of 2018, the Group operated in the territory of Poland. In addition, ZUE earned revenue of PLN 198 thousand from the provision of equipment services in Slovakia.

Reporting segments results for the three quarters of 2017:

	Construction	Sales	Design	Exclusions	Total
Revenue	**212,280**	**40,327**	**10,369**	**-29,517**	**233,459**
including:					
Inter-segment revenues	326	27,239	1,672	-29,237	0
Revenue from external customers,	211,954	13,088	8,697	-280	233,459
including:					
Revenue from construction contracts	204,071	0	10,369	-1,953	212,487
Revenue from the rendering of services	7,115	2,305	0	-466	8,954
Revenue from the sale of goods, raw and other materials	1,094	38,022	0	-27,098	12,018
Gross profit on sales	**2,771**	**722**	**550**	**-289**	**3,754**
Financial income / expenses	-1,876	-469	0	0	-2,345
Interest received	141	0	1	0	142
Interest paid	-404	-204	-6	0	-614
Pre-tax profit	**-11,748**	**-1,414**	**-533**	**-297**	**-13,992**
Corporate income tax	-1,897	40	65	-56	-1,848
Net profit	**-9,851**	**-1,454**	**-598**	**-241**	**-12,144**
Depreciation and amortisation	7,234	22	65	-24	7,297
Property, plant and equipment	88,860	5	156	2,874	91,895
Non-current assets	158,850	278	658	-727	159,059
Total assets	**366,021**	**11,673**	**14,307**	**-2,006**	**389,995**
Total payables	**166,299**	**13,139**	**14,831**	**-1,362**	**192,907**

In the three quarters of 2017, the Group operated in the territory of Poland.

Concentration of revenues that exceed 10% of total revenue:

	Balance at 30-09-2018
Counterparty A	304,291

4.8. Other notes to the financial statements

4.8.1. 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 30 September 2018 as endorsed by the European Union (EU).

The quarterly consolidated financial statements for the nine months ended 30 September 2018 have been prepared according to the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent.

Standards and interpretations used for the first time in the reporting period

The following amendments to the existing standards published by the International Accounting Standards Board (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);
- **Amendments to IFRS 9 "Financial Instruments" –** "Prepayment Features with Negative Compensation" (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).

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 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);
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);

- **Amendments to IFRS 3 "Business Combinations" (**effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 1 and IAS 8: "Definition of Material"** (effective for annual periods beginning on or after 1 January 2020).

The new or amended standards or interpretations used for the first time in 2018 do not have any material influence on the quarterly financial statements. The influence of IFRS 15 and IFRS 9 on the accounting policy has been discussed by the Group in the note 4.8.2.

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.

4.8.2. Important accounting principles

Going concern

The quarterly condensed financial statements of the Group have been prepared assuming that the companies within the Group will continue in operational existence for at least 12 months after the end of the reporting period; i.e. after 30 September 2018.

The most important factor influencing the Group's ability to continue in operational existence is the financial standing of ZUE, the parent company.

The key factors with an impact on the Group's ability to continue its activities include liquidity, proper backlog and market situation.

The following facts should be taken into account when analysing the financial position of the Group: In the nine months ended 30 September 2018, the Group recognised sales revenue of PLN 556m and net profit of PLN 2m. In addition, the Group reported net current assets of PLN 81m, including cash of PLN 23m. There is PLN 2,185m in the Group's portfolio.

Accordingly, the Management Board of ZUE state that there are no significant going concern risks at the end of the reporting period. These quarterly condensed financial statements have been prepared assuming that the Group will continue in operational existence for the foreseeable future.

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, except for the following changes:
In these financial statements and the comparative information, the Group presented the item named: "Measurement of long-term construction contracts" and made the following annotation:

- Included in assets are the amounts due and receivable from customers (contracting authorities) in connection with all construction work in progress in respect of which the recognised revenue exceeds the amounts due under partial invoices;
- Included in liabilities are the amounts due and payable to suppliers under all construction work in progress in respect of which the amounts invoiced for the work performed under the contract exceed the recognised revenue.

Previously the Group recognised receivables under contracts (measurement) under Trade and other receivables and payables under contracts (measurement) under Trade payables.

<u>The table below presents the influence of changes on the consolidated statement of financial position:</u>

(PLN ‘000, unless otherwise provided)

	Restated Balance at 31-12-2017	Approved Balance at 31-12-2017	Effect of change
ASSETS			
Non-current assets			
Total non-current assets	**158,593**	**158,593**	**0**
Current assets			
Trade and other receivables	117,940	192,148	-74208
Valuation of long-term construction contracts	74,208	0	74,208
Total current assets	**343,659**	**343,659**	**0**
Total assets	**502,252**	**502,252**	**0**
LIABILITIES			
Equity			
Total equity attributable to shareholders of the parent company	**209,510**	**209,510**	**0**
Total equity attributable to non-controlling interests	-91	-91	0
Total equity	**209,419**	**209,419**	**0**
Non-current liabilities			0
Total non-current liabilities	**25,472**	**25,472**	**0**
Current liabilities			0
Trade and other payables	223,562	224,286	-724
Valuation of long-term construction contracts	724	0	724
Total current liabilities	**267,361**	**267,361**	**0**
Total liabilities	**292,833**	**292,833**	**0**
Total equity and liabilities	**502,252**	**502,252**	**0**

Applied accounting principles

Except for the following changes, these quarterly consolidated financial statements for the nine months ended 30 September 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 IAS 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 assets "Measurement of long-term construction contracts" 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 liabilities "Measurement of long-term construction contracts" 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;
- 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:

	Categories of financial assets	
Financial assets	**IAS 39**	**IFRS 9**
Retentions on construction contracts (before discount)	Loans and receivables	Measured at amortised cost
Trade receivables	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.

4.8.3. 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 the valuations of long-term construction contracts (note no. 4.4.1), 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 nine months ended 30 September 2018 were approved for publication by the Management Board of ZUE on 26 November 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, 26 November 2018

ZUE S.A.

CONDENSED SEPARATE FINANCIAL STATEMENTS
FOR 9 MONTHS ENDED 30 SEPTEMBER 2018

Cracow, 26 November 2018

(PLN' 000, unless otherwise provided)

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

Separate statement of comprehensive income

Continuing operations	**Note no.**	**9 months ended**	**3 months ended**	**9 months ended**	**3 months ended**
		30-09-2018	**30-09-2018**	**30-09-2017**	**30-09-2017**
Revenue	2.1.1.	507,241	217,444	212,280	112,185
Cost of sales	2.1.2.	493,407	213,479	209,509	103,313
Gross profit (loss) on sales		**13,834**	**3,965**	**2,771**	**8,872**
General and administrative expenses	2.1.2.	13,187	4,532	12,680	4,337
Other operating income	2.1.3.	823	34	1,917	277
Other operating expenses	2.1.4.	876	37	1,880	852
Profit (loss) on operating activities		**594**	**-570**	**-9,872**	**3,960**
Financial income	2.1.5.	1,846	970	1,005	114
Financial expenses	2.1.6.	674	243	2,881	384
Pre-tax profit (loss)		**1,766**	**157**	**-11,748**	**3,690**
Corporate income tax	2.1.7.	514	141	-1,897	666
Net profit (loss) from continuing operations		**1,252**	**16**	**-9,851**	**3,024**
Net profit (loss)		**1,252**	**16**	**-9,851**	**3,024**
Other net comprehensive income					
Items that will not be reclassified subsequently to profit or loss:		**-3**	**0**	**-50**	**0**
Actuarial gains (losses) relating to specific benefit schemes		-3	0	-50	0
Total other net comprehensive income		**-3**	**0**	**-50**	**0**
Total comprehensive income		**1,249**	**16**	**-9,901**	**3,024**
Number of shares		23,030,083	23,030,083	23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)		0.05	0.00	-0.43	0.13
Total comprehensive income (loss) per share (PLN)		0.05	0.00	-0.43	0.13

(PLN' 000, unless otherwise provided)

Separate statement of financial position

	Note no.	Balance at 30-09-2018	Balance at 31-12-2017
ASSETS			
Non-current assets			
Property, plant and equipment	2.5.1.	101,351	92,004
Investment property	2.5.2.	8,758	9,095
Intangible assets		8,229	8,594
Goodwill	2.5.3.	31,172	31,172
Investments in subordinates		221	210
Retentions on construction contracts	2.2.2.	9,737	9,439
Deferred tax assets	2.1.7.	7,290	7,803
Total non-current assets		**166,758**	**158,317**
Current assets			
Inventories	2.5.6.	42,240	24,239
Trade and other receivables	2.3.1.	117,441	105,746
Valuation of long-term construction contracts	2.2.1.	170,995	65,524
Retentions on construction contracts	2.2.2.	217	4,393
Current tax assets	2.1.7.	0	0
Loans advanced	2.5.5.	3,191	10
Other assets		687	909
Cash and cash equivalents	2.4.3.	21,759	116,144
Total current assets		**356,530**	**316,965**
Total assets		**523,288**	**475,282**

	Note no.	Balance at 30-09-2018	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		114,710	113,461
Total equity		**211,615**	**210,366**
Non-current liabilities			
Long-term loans and bank credits and other financing sources	2.4.1.	15,953	11,205
Retentions on construction contracts	2.2.2.	10,966	5,755
Liabilities under employee benefits		880	856
Long-term provisions	2.2.3.	6,813	5,671
Other liabilities		140	350
Total non-current liabilities		**34,752**	**23,837**
Current liabilities			
Trade and other payables	2.3.2.	234,275	205,950
Valuation of long-term construction contracts	2.2.1.	65	475
Retentions on construction contracts	2.2.2.	6,916	6,663

(PLN' 000, unless otherwise provided)

Short-term loans and bank credits and other financing sources	2.4.1.	12,641	8,773
Other financial liabilities		36	36
Liabilities under employee benefits		19,352	16,184
Current tax liabilities	2.1.7.	0	0
Short-term provisions	2.2.3.	3,636	2,998
Total current liabilities		**276,921**	**241,079**
Total liabilities		**311,673**	**264,916**
Total equity and liabilities		**523,288**	**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	1,252	1,252
Other net comprehensive income		0	0	0	-3	-3
Balance at	**30 September 2018**	**5,758**	**93,837**	**-2,690**	**114,710**	**211,615**

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

(PLN' 000, unless otherwise provided)

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	839	839
Other net comprehensive income		0	0	0	-96	-96
Balance at	**31 December 2017**	**5,758**	**93,837**	**-2,690**	**113,461**	**210,366**

(PLN' 000, unless otherwise provided)

Separate statement of cash flows

	9 months ended 30-09-2018	9 months ended 30-09-2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Pre-tax profit / (loss)	**1,766**	**-11,748**
Adjustments for:		
Depreciation and amortisation	7,931	7,234
Foreign exchange gains / (losses)	-37	405
Interest and share in profit (dividends)	381	550
(Gain) / loss on disposal of investments, including release of write-down on investment property	7	-1,157
Operating profit (loss) before changes in working capital	**10,048**	**-4,716**
Change in receivables, valuations of construction contracts and retentions on construction contracts	-113,439	-55,325
Change in inventories	-18,001	-30,672
Change in provisions and liabilities under employee benefits	4,968	-1,540
Change in liabilities, valuations of contracts and retentions on construction contracts, excluding loans and bank credits and other financing sources	33,316	26,299
Change in accrued expenses	221	664
Income tax paid / tax refund	0	20
NET CASH FROM OPERATING ACTIVITIES	**-82,887**	**-65,270**
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	885	497
Purchase of property, plant and equipment and intangible assets	-15,553	-15,915
Sale / (purchase) of financial assets in other entities	-58	0
Sale / (purchase) of financial assets in related entities	-11	0
Cash payments to purchase debt instruments of other entities	0	-166,950
Redemption of debt instruments of other entities	0	221,575
Advanced loans	-3,210	-9
Repayment of granted loans	100	4
Interest received	213	141
Gain/loss on repurchase of debt instruments	0	309
NET CASH FROM INVESTING ACTIVITIES	**-17,634**	**39,652**
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	17,319	15,047
Repayment of loans and bank credits	0	0
Decrease in finance lease liabilities and liabilities relating to financing of property, plant and equipment	-10,614	-7,707
Interest paid	-591	-404
Other cash provided by / (used in) financing activities – dividends	0	-1
NET CASH FLOWS FROM FINANCING ACTIVITIES	**6,114**	**6,935**
TOTAL NET CASH FLOWS	**-94,407**	**-18,683**
Net foreign exchange gains / (losses)	22	-405
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**116,144**	**61,207**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:	**21,759**	**42,119**
- of limited availability	1	0

Notes to condensed separate financial statements of ZUE

1. General information

1.1. Details of the Company

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

Composition of the 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 Chairperson
Barbara Nowak	Audit Committee Member
Piotr Korzeniowski	Audit Committee Member

Mr. Mariusz Szubra and Mr. Piotr Korzeniowski meet the independence criteria referred to in the 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 30-09-2018	Period ended 30-09-2017
Revenue from construction contracts	496,382	204,071
Revenue from the rendering of services	9,245	7,115
Revenue from the sale of goods, raw and other materials	1,614	1,094
Total	**507,241**	**212,280**

The Company's revenue in the period from 1 January to 30 September 2018 amounted to PLN 507,241 thousand and increased by 139% over the analogous figure reported in the analogous period of 2017.

In the reporting period, the Company carried out works in the territory of Poland. In addition, ZUE generated revenue of PLN 198 thousand from the provision of equipment services in Slovakia.

The biggest portion of revenue has been earned from long-term construction contracts.

Company presents the entire revenue in one reporting segment, namely construction activity.

(PLN' 000, unless otherwise provided)

2.1.2. Operating expenses

	Period ended 30-09-2018	Period ended 30-09-2017
Change in products	-1,087	-827
Depreciation and amortization	7,931	7,234
Consumption of raw and other materials	244,577	96,611
Contracted services	184,064	60,732
Costs of employee benefits	61,500	45,256
Taxes and charges	1,176	1,189
Other expenses	7,591	11,564
Value of goods and materials sold	842	430
Total	**506,594**	**222,189**

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 30-09-2018	Period ended 30-09-2017
Cost of sales	493,407	209,509
General and administrative expenses	13,187	12,680
Total	**506,594**	**222,189**

ZUE's general and administrative expenses between 1 January and 30 September 2018 stood at PLN 13,187 thousand and increased by 4% when compared with the Company's general and administrative expenses in the first three quarters of 2017.

Depreciation and amortisation

	Period ended 30-09-2018	Period ended 30-09-2017
Depreciation of property, plant and equipment	7,218	6,477
Amortisation of intangible assets	365	409
Depreciation of investments in real property	348	348
Total	**7,931**	**7,234**

2.1.3. Other operating income

	Period ended 30-09-2018	Period ended 30-09-2017
Gain on disposal of assets:	**135**	**157**
Gain on disposal of non-current assets	135	157
Other operating income:	**688**	**1,760**
Release of write-downs on receivables	37	359
Refund of costs of court proceedings	580	48
Release of write-downs on inventories	30	14
Release of write-downs on investment property	0	1,000
Other	41	339
Total	**823**	**1,917**

(PLN' 000, unless otherwise provided)

In order to make the financial statements clearer, reinvoices and damages have been presented by the Group jointly since September 2018 (income and expenses according to their netted balance). The comparative data has been accordingly restated.

2.1.4. Other operating expenses

	Period ended 30-09-2018	Period ended 30-09-2017
Loss on disposal of assets:	**0**	**0**
Loss on disposal of non-current assets	0	0
Other operating expenses:	**876**	**1,880**
Donations	18	14
Damages and penalties	455	435
Write-downs on receivables	163	1,259
Costs of litigation	228	122
Other	12	50
Total	**876**	**1,880**

In order to make the financial statements clearer, reinvoices and damages have been presented by the Group jointly since September 2018 (income and expenses according to their netted balance). The comparative data has been accordingly restated.

2.1.5. Financial income

	Period ended 30-09-2018	Period ended 30-09-2017
Interest income:	**525**	**436**
Interest on bank deposits	379	141
Interest on loans	73	6
Interest on receivables	73	289
Other financial income:	**1,321**	**569**
Foreign exchange gains	1	0
Discount of long-term items	1,158	0
Realisation of financial instruments	0	309
Guarantees	162	257
Other	0	3
Total	**1,846**	**1,005**

2.1.6. Financial expenses

	Period ended 30-09-2018	Period ended 30-09-2017
Interest expenses:	**599**	**627**
Interest on finance lease liabilities	130	174
Interest on liabilities relating to financing of property, plant and equipment	461	230
Interest on trade and other payables	8	223
Other financial expenses:	**75**	**2,254**
Foreign exchange losses	0	623
Discount of long-term items	0	1,285
Write-down on investments in related entities	58	0

(PLN' 000, unless otherwise provided)

Other	17	346
Total	**674**	**2,881**

2.1.7. Corporate income tax

Corporate income tax recognised in the statement of comprehensive income

	Period ended 30-09-2018	Period ended 30-09-2017
Current income tax	0	-20
Deferred tax	514	-1,877
Total tax expense/income	**514**	**-1,897**

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.

Income tax according to effective tax rate

	Period ended 30-09-2018	Period ended 30-09-2017
Gross profit (loss)	**1,766**	**-11,748**
Income tax at the applicable rate of 19%	336	-2,232
Effect of the tax recognition of:	-3,777	240
Use of tax losses brought forward	0	0
- Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	16,542	11,655
- Revenue not classified as revenue under tax regulations and taxable revenues that are not balance sheet revenue	20,319	11,415
Revaluation of deferred tax assets	3,441	1,992
Deferred tax	514	-1,877
Income tax adjustments	0	0
Income tax paid /(tax refund) on income earned abroad	0	-20
Income tax according to effective tax rate	**514**	**-1,897**
effective tax rate	29%	16%

Current tax assets and liabilities

	30-09-2018	31-12-2017
Current tax assets		
Tax refundable	0	0

(PLN' 000, unless otherwise provided)

Current tax liabilities

Tax payable	0	0

Deferred tax

	Balance at 30-09-2018	Balance at 30-09-2017
Deferred tax balance at the beginning of the period	**7,803**	**8,465**
Temporary differences relating to deferred tax assets:	**39,631**	**24,349**
Provisions for expenses and accruals	18,213	9,477
Discount of receivables	328	498
Operating lease liabilities	1,115	141
Write-downs	1,176	1,426
Bonds and insurance settled in time	1,721	1,536
Tax work in progress	16,663	10,862
Valuation of long-term contracts	12	95
Other	403	314
Temporary differences relating to deferred tax liabilities:	**43,435**	**23,857**
Valuation of long-term contracts	32,489	14,383
Property, plant and equipment and intangible assets	10,381	9,160
Discount of payables	546	314
Other	19	0
Unused tax losses and other tax credits to be settled in future:	**11,094**	**9,862**
Tax losses	11,094	9,862
Total temporary differences relating to deferred tax assets:	**50,725**	**34,211**
Total temporary differences relating to deferred tax liabilities:	**43,435**	**23,857**
Deferred tax balance at the end of the period	**7,290**	**10,354**
Change in deferred tax, including:	**-513**	**1,889**
- recognised in income	-514	1,877
- recognised in equity	1	12

Deferred tax recognised in equity is a result of calculating tax on actuarial gains/losses presented in comprehensive income.

(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 30-09-2018	Period ended 30-09-2017
Revenue from long-term construction contracts	479,496	192,728
Costs of long-term construction contracts	466,335	192,131
Gross profit (loss) on long-term contracts	**13,161**	**597**

	Balance at 30-09-2018	Balance at 31-12-2017
Assets (selected items)	**199,260**	**90,919**
- Valuation of long-term construction contracts	170,995	65,524
- Advance payments for contracts	18,311	11,563
- Retentions on construction contracts retained by customers	9,954	13,832
Liabilities (selected items)	**165,535**	**125,425**
- Valuation of long-term construction contracts	65	475
- Provisions for contract costs	71,925	28,737
- Advance payments for contracts	65,214	75,126
- Retentions on construction contracts retained for suppliers	17,882	12,418
- Provisions for warranty claims	9,549	8,252
- Provisions for expected losses on contracts	900	417

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

Provisions for contract costs are included in accruals.

2.2.2. Retentions on construction contracts

	Balance at 30-09-2018	Balance at 31-12-2017
Retained by customers – to be repaid after 12 months	9,737	9,439
Retained by customers – to be repaid within 12 months	217	4,393
Total retentions on construction contracts retained by customers	**9,954**	**13,832**
Retained for suppliers – to be repaid after 12 months	10,966	5,755
Retained for suppliers – to be repaid within 12 months	6,916	6,663
Total retentions on construction contracts retained for suppliers	**17,882**	**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 decreased at the end of the third quarter of 2018 after they had been returned by the Bank following the expiry of the term thereof.

Cash deposits increased at the end of the third quarter of 2018 after they had been retained for subcontractors as a result of their involvement in the performance of contracts.

(PLN' 000, unless otherwise provided)

2.2.3. Provisions

Change in provisions

Provisions	01-01-2018	Created	Used	Released	Reclassified	30-09-2018	Item
Long-term provisions:	**6,527**	**2,210**	**200**	**117**	**-727**	**7,693**	
Provisions for employee benefits	856	24	0	0	0	880	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,671	2,186	200	117	-727	6,813	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	**13,117**	**11,610**	**10,199**	**544**	**727**	**14,711**	
Provisions for employee benefits	10,119	10,737	9,642	139	0	11,075	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,581	0	557	15	727	2,736	Short-term provisions
Provision for loss on contracts	417	873	0	390	0	900	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	**19,644**	**13,820**	**10,399**	**661**	**0**	**22,404**	

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 retirement or pension gratuities.

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 30-09-2018	Balance at 31-12-2017
Trade receivables	109,731	103,145
Write-downs on trade receivables	-15,021	-13,280
Advance payments	18,311	11,563
Other receivables	4,420	4,318
Total trade and other receivables	**117,441**	**105,746**

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

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

(PLN' 000, unless otherwise provided)

Change in write-downs on trade receivables influencing the profit or loss includes the release of write-downs of PLN 37 thousand and the creation of write-downs of PLN 163 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by the Company for the penalties and damages that are not the Company's revenue at the moment of issue.

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

	Balance at 30-09-2018
Counterparty A	78,427
Total	**78,427**

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 and other payables

	Balance at 30-09-2018	**Balance at 31-12-2017**
Trade payables	90,980	86,200
Payables to the state budget other than corporate income tax	5,896	15,538
Accruals	72,135	28,944
Other payables	50	142
Advance payments	65,214	75,126
Total trade and other payables	**234,275**	**205,950**

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 third quarter of 2018, the Company continued to finance its investments with leases 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 30-09-2018	**Balance at 31-12-2017**
Long-term	**15,953**	**11,205**
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	12,918	7,714
Finance lease liabilities	3,035	3,491
Short-term	**12,641**	**8,773**

(PLN' 000, unless otherwise provided)

Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	10,205	6,680
Finance lease liabilities	2,436	2,093
Total	**28,594**	**19,978**

Liabilities relating to the financing of property, plant and equipment include leasebacks. In the reporting period, the Company signed the agreements for the purchase of piling station of PLN 3,326 thousand, wagons of PLN 8,510 thousand and two-way rail welding machine of PLN 5,483 thousand. For presentation purposes, leaseback has been named the agreement for financing of property, plant and equipment.

Summary of credit agreements

No.	Bank	Description	Principal/limit according to the agreement as at 30-09-2018	Use as at 30-09-2018	Interest	Repayment date
1	mBank S.A. (ii)	Overdraft	10,000	**0**	O/N WIBOR + margin	10-05-2019
2	mBank S.A. (i)	Cooperation agreement	50,000	**0**	3M WIBOR + margin	17-07-2020
		including:				
		sublimit for bonds	50,000	0		
		sublimit for working credit facilities	30,000	0		
3	BGŻ BNP PARIBAS S.A. (i)	Multipurpose credit line agreement	170,000	**71,617**	1M WIBOR + margin	24-10-2019
		including:				
		sublimit for bonds	170,000	71,617		
		sublimit for working credit facilities	20,000	0		
4	PEKAO S.A. (i)	Multipurpose credit limit agreement	100,000	**71,537**	1M WIBOR + margin	30-11-2018
		including:				
		sublimit for bonds	100,000	71,537		
		sublimit for working credit facilities	20,000	0		
	Total use of credits			**0**		
	Total use of bonds			**143,154**		

(PLN' 000, unless otherwise provided)

(i) ZUE may use the available credit limit for bank guarantees.
(ii) Annex of 9 May 2018 whereby the limit was raised to PLN 10,000 thousand.

Security and liabilities relating to concluded credit agreements:

1. Overdraft – security: bill of exchange.
2. **Cooperation agreement** – security: mortgage, borrower's statement about submission to enforcement.
3. **Multipurpose credit line agreement** – security: bill of exchange, cash deposit for the bonds expiring after 37 months; security deposit of PLN 4,000 thousand, registered pledge on non-current assets owned by the borrower; assignment of rights under policy; borrower's statement about submission to enforcement.
4. **Multipurpose credit limit agreement** – security: assignment of claims; registered pledge on non-current assets owned by the borrower; assignment of rights under policy; cash deposit for each bond effective after contract performance; borrower's statement about submission to enforcement.

The following changes were made to the Company's credit agreements in the reporting period:

- mBank – Overdraft – Annex of 9 May 2018 whereby the limit was raised by PLN 5,000 thousand.

The following changes were made to the Company's credit agreements after the end of the reporting period:

- BGŻ BNP Paribas S.A. – Multipurpose credit line agreement – the bank approved of extending the credit for another year; i.e. until 24 October 2019.

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 analyses own resources required for day-to-day operations, the schedule of contract financing, the cost of capital and the risks associated with each class of capital.

	Balance at 30-09-2018	**Balance at 31-12-2017**
Long- and short-term loans and bank credits and other financing sources	28,594	19,978
Long- and short-term other financial liabilities	36	36
Total financial liabilities	**28,630**	**20,014**
Cash and cash equivalents	21,759	116,144
Net debt	**6,871**	**-96,130**
Equity	211,615	210,366
Net debt to equity ratio	**3.25%**	**-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 a positive net debt ratio because total financial liabilities at the end of Q3 2018 exceeded the Group's cash reported by the Company for the same period.

The Company mainly uses own resources to finance day-to-day operations. It also has credit limits. At the end of the reporting period, the said limits were mainly used for bonds.

2.4.3. Cash and cash equivalents

	Balance at 30-09-2018	**Balance at 31-12-2017**
Cash on hand and at banks	16,759	105,144
Bank deposits up to three months	5,000	11,000
TOTAL	**21,759**	**116,144**

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

The cash at 30 September 2018 does not include the cash of PLN 14,747 thousand kept on escrow accounts. These funds are owed to the Company and consortium members. ZUE does not exercise a full control over the cash and is not free to use it without the consortium's consent. Accordingly, the Company believes that the cash cannot be defined as an asset and is not presented in the balance sheet as at 30 September 2018. As at 31 December 2017, the cash on escrow accounts maintained by ZUE was PLN 9,998 thousand.

(PLN' 000, unless otherwise provided)

Discussion of items of the statement of cash flows

The Company's cash flows from operating activities of PLN (-) 82,887 thousand were mainly influenced by changes in retentions, payables, receivables and inventories in connection with the performance of construction contracts.

Cash flows from investing activities of PLN (-) 17,634 thousand were mainly influenced by the purchase of non-current assets (specialist machinery). The transactions were financed by own resources and a loan granted to a subsidiary.

Cash flows from financing activities of PLN 6,114 thousand were influenced by the leaseback used to finance the purchase of specialist equipment and the decrease in liabilities under leases.

	Period ended 30-09-2018	**Period ended 30-09-2017**
Cash flows from operating activities	-82,887	-65,270
Cash flows from investing activities	-17,634	39,652
Cash flows from financing activities	6,114	6,935
Total net cash flows	**-94,407**	**-18,683**
Cash and cash equivalents at the beginning of the period	116,144	61,207
Cash and cash equivalents at the end of the period	21,759	42,119

(PLN' 000, unless otherwise provided)

2.5. Other notes to the financial statements

2.5.1. Property, plant and equipment

Gross value	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2018	**0**	**24,576**	**45,960**	**67,095**	**2,069**	**139,700**	**3,202**	**3,705**	**146,607**
Additions	0	0	4,641	18,582	73	23,296	10,564	945	34,805
Adjustment	0	11	0	-11	0	0	0	0	0
Transfer to non-current assets	0	0	0	0	0	0	12,850	4,650	17,500
Sale/liquidation	0	0	2,003	1,180	22	3,205	0	0	3,205
Balance at 30 September 2018	**0**	**24,587**	**48,598**	**84,486**	**2,120**	**159,791**	**916**	**0**	**160,707**

Depreciation	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2018	**0**	**7,710**	**20,567**	**24,643**	**1,683**	**54,603**	**0**	**0**	**54,603**
Elimination on disposal of assets	0	0	1,506	938	21	2,465	0	0	2,465
Depreciation expense	0	591	2,334	4,199	94	7,218	0	0	7,218
Balance at 30 September 2018	**0**	**8,301**	**21,395**	**27,904**	**1,756**	**59,356**	**0**	**0**	**59,356**
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 30 September 2018	**0**	**16,286**	**27,203**	**56,582**	**364**	**100,435**	**916**	**0**	**101,351**

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

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 30 September 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	129	219	0	0	0	348
Balance at 30 September 2018	**0**	**1,634**	**2,370**	**0**	**0**	**0**	**4,004**
Carrying amount							
Balance at 1 January 2018	**126**	**3,723**	**5,246**	**0**	**0**	**0**	**9,095**
Balance at 30 September 2018	**126**	**3,594**	**5,038**	**0**	**0**	**0**	**8,758**

At 30 September 2018, the investment property included the real property in Kościelisko (plots no. 2001 and 2491) and the real property in Poznań (plot no. 2/1).

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

The investment property was measured at purchase price less impairment losses. The revenue from the lease of the investment property in 2018 was PLN 275 thousand (PLN 277 thousand for the three quarters of 2017).

(PLN '000, unless otherwise provided)

2.5.3. Goodwill

At cost	Balance at 30-09-2018	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 Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A (PRK) on 20 December 2013. The control of PRK was gained by ZUE in 2010.

The goodwill of PLN 31,172 thousand and the leasehold 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 the impairment of PRK goodwill. Goodwill 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 17,316 thousand.

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

Item:	Own resources	Finance lease	Leaseback	Total
Intangible assets, including:	**0**	**0**	**0**	**0**
- leasehold land	0	0	0	0
Property, plant and equipment, including:	**-1,924**	**1,910**	**17,319**	**17,305**
- buildings and structures	0	0	0	0
- plant and equipment	4,640	0	3,326	7,966
- vehicles	16,673	1,910	13,993	32,576
- other	73	0	0	73
- non-current assets under construction	10,564	0	0	10,564
- settlement of non-current assets under construction for ongoing investments	-12,850	0	0	-12,850
- leaseback	-17,319	0	0	-17,319
- current advance payments	945	0	0	945
- settlement of advance payment from prior period for ongoing investments	-4,650	0	0	-4,650
Investment property	**11**	**0**	**0**	**11**
Equity investments	**0**	**0**	**0**	**0**
Total investments	**-1,913**	**1,910**	**17,319**	**17,316**

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

- Purchase of two-way rail welding machine – PLN 5,483 thousand (leaseback).
- Purchase of EAOS wagons worth PLN 4,575 thousand (leaseback).
- Purchase of Smmps wagons worth PLN 3,935 thousand (leaseback).
- Complete overhauls of machines and vehicles – PLN 3,387 thousand.

(PLN' 000, unless otherwise provided)

- Purchase of pile driver – PLN 3,326 thousand (leaseback).
- Purchase of cars – PLN 1,910 thousand (lease).
- Purchase of wrenches – PLN 177 thousand.
- Purchase of aerial platform – PLN 148 thousand.
- Purchase of electronic tacheometers – PLN 62 thousand.
- Purchase of storage containers – PLN 44 thousand.

The pile driver, wagons and two-way rail welding machine were initially financed by own resources.

The amount recognized in the statement of cash flows is the purchase of PLN 15,553 thousand. The difference is a result of actual payments, leases and the settlements of advance payments and non-current assets under construction.

2.5.5. Advanced loans

	Balance at 30-09-2018	Balance at 31-12-2017
Loans advanced to related entities	3,250	66
Loans advanced to other entities	292	279
Impairment losses	-351	-335
Total	**3,191**	**10**

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

2.5.6. Inventories

	Balance at 30-09-2018	Balance at 31-12-2017
Goods, raw and other materials	40,620	23,706
Work in progress	1,421	334
Finished goods	199	199
Total	**42,240**	**24,239**

Inventories increased after they had been 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 30 September 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)	11,971	0	0	0	19,439
Trade receivables	109,731	0	0	0	0
Other financial liabilities	0	0	0	0	36

(PLN' 000, unless otherwise provided)

Advanced loans	3,191	0	0	0	0
Cash and cash equivalents	21,759	0	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	28,594
Trade payables	0	0	0	0	90,980
Total	**146,652**	**0**	**0**	**0**	**139,049**

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

2.5.8. Transactions with related entities

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

	Receivables		Payables	
	Balance at		Balance at	
	30-09-2018	31-12-2017	30-09-2018	31-12-2017
Railway gft	46	178	3,218	4,919
BPK Poznań	1,316	1,351	2,483	1,329
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	**1,362**	**1,529**	**5,701**	**6,248**

	Revenue		Purchases	
	Period ended		Period ended	
	30-09-2018	30-09-2017	30-09-2018	30-09-2017
Railway gft	259	242	5,476	27,246
BPK Poznań	420	364	6,349	1,679
RTI	3	3	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	468
Total	**682**	**609**	**11,825**	**29,393**

	Advanced loans		Financial income (interest on loans)	
	Balance at		Period ended	
	30-09-2018	31-12-2017	30-09-2018	30-09-2017
Railway gft	3,170	0	72	0
BPK Poznań	0	0	0	0
RTI	21	10	0	0
RTI Germany	59	56	1	1
Wiesław Nowak	0	0	0	0
Total	**3,250**	**66**	**73**	**1**

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
- 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

(PLN' 000, unless otherwise provided)

- Printing services.

In the reporting period, ZUE executed the following transactions:

- Lease of business establishments to RTI on the basis of the lease of 31 December 2015; and
- Lease of rooms to BPK Poznań on the basis of the lease of 1 October 2015 and the lease of 7 April 2010, as amended.

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.

On 19 June 2018, ZUE and RTI Germany signed an annex no. 3 to the loan agreement of 31 May 2016 whereby the loan and interest repayment date was extended until 20 June 2019.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the said guarantees at 30 September 2018 amounted to PLN 20,594 thousand. ZUE is remunerated for the provision of the said guarantees.

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

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

The court cases are presented in detail in the note III 4.7.9 of the consolidated financial statements.

2.5.10. Contingent assets and liabilities

Contingent assets

	Balance at 30-09-2018	Balance at 31-12-2017
Bonds	56,939	36,309
Bills of exchange	15,820	6,756
Total	**72,759**	**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.

Contingent liabilities

	Balance at 30-09-2018	Balance at 31-12-2017
Bonds	520,651	477,103
Guarantees	20,594	18,421
Bills of exchange	330,702	317,684
Mortgages	54,259	54,259
Pledges	20,545	13,048
Total	**946,751**	**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 with BGŻ BNP PARIBAS and PEKAO whereby limits had been raised and the new bond limit agreement with BGK. The pledged assets include wagons, pile driver and maintenance train.

2.5.11. 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 the note III 2.11 of the consolidated financial statements.

2.5.12. Discontinued operations

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

2.5.13. 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.

2.5.14. 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.

On 5 June 2018, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2017 as recommended by the Management Board of ZUE.

2.5.15. 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 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.

2.6. Other notes to the financial statements

2.6.1. 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 30 September 2018 as endorsed by the European Union (EU).

The separate financial statements for the period 1 January 2018 - 30 September 2018 have been prepared according to the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent.

Standards and interpretations used for the first time in the reporting period

The following amendments to the existing standards published by the International Accounting Standards Board (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);
- **Amendments to IFRS 9 "Financial Instruments" –** "Prepayment Features with Negative Compensation" (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).

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 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);
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IFRS 3 "Business Combinations" (**effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 1 and IAS 8: "Definition of Material"** (effective for annual periods beginning on or after 1 January 2020).

The new or amended standards or interpretations used for the first time in 2018 do not have any material influence on the quarterly financial statements. The influence of IFRS 15 and IFRS 9 on the accounting policy has been discussed in the note III 4.8.2 of the consolidated financial statements.

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.

2.6.2. Important accounting principles

Going concern

The quarterly condensed financial statements of the Company have been prepared assuming that the Company will continue in operational existence for at least 12 months after the end of the reporting period; i.e. after 30 September 2018.

The most important factor influencing the Company's ability to continue in operational existence is its financial standing.

The key factors with an impact on the Company's ability to continue its activities include liquidity, proper backlog and market situation.

The following facts should be taken into account when analysing the financial position of the Company: In the nine months ended 30 September 2018, the Company recognised sales revenue of PLN 507m and net profit of PLN 1m. In addition, the Company reported net current assets of PLN 80m, including cash of PLN 22m. There is PLN 2,157m in the Company's portfolio.

Accordingly, the Management Board of ZUE state that there are no significant going concern risks at the end of the reporting period. These quarterly condensed financial statements have been prepared assuming that the Company will continue in operational existence for the foreseeable future.

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, except for the following changes:
In these financial statements and the comparative information, the Company presented the item named: "Measurement of long-term construction contracts" and made the following annotation:

- Included in assets are the amounts due and receivable from customers (contracting authorities) in connection with all construction work in progress in respect of which the recognised revenue exceeds the amounts due under partial invoices;
- Included in liabilities are the amounts due and payable to suppliers under all construction work in progress in respect of which the amounts invoiced for the work performed under the contract exceed the recognised revenue.

Previously the Company recognised receivables under contracts (measurement) under Trade and other receivables and payables under contracts (measurement) under Trade payables.

(PLN' 000, unless otherwise provided)

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

	Restated	Approved	
	Balance at 31-12-2017	Balance at 31-12-2017	Effect of changes
ASSETS			
Non-current assets			
Total non-current assets	**158,317**	**158,317**	**0**
Current assets			0
Trade and other receivables	105,746	171,270	-65,524
Valuation of long-term construction contracts	65,524	0	65,524
Total current assets	**316,965**	**316,965**	**0**
Total assets	**475,282**	**475,282**	**0**
LIABILITIES			
Equity			
Total equity	**210,366**	**210,366**	**0**
Non-current liabilities			0
Total non-current liabilities	**23,837**	**23,837**	**0**
Current liabilities			0
Trade and other payables	205,950	206,425	-475
Valuation of long-term construction contracts	475	0	475
Total current liabilities	**241,079**	**241,079**	**0**
Total liabilities	**264,916**	**264,916**	**0**
Total equity and liabilities	**475,282**	**475,282**	**0**

Applied accounting principles

Except for the following changes, these quarterly separate financial statements for the nine months ended 30 September 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 preparation of financial statements

The Company has applied IFRS 15 and IFRS 9 since 1 January 2018. Note III 4.8.2 of the consolidated financial statements presents a detailed influence of the new standards.

2.6.3. 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 the valuations of long-term construction contracts (note no. 2.2.1), 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 nine months ended 30 September 2018 were approved for publication by the Management Board of ZUE on 26 November 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, 26 November 2018