



**ZUE Capital Group**

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**CONSOLIDATED QUARTERLY REPORT  
FOR 9 MONTHS ENDED 30 SEPTEMBER 2019**

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**Cracow, 19 November 2019**

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**Contents of the consolidated quarterly report:**

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

Abbreviations and definitions:

ZUE, Company, Issuer, Parent Company	ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,757,520.75 paid up in full. Parent company of the ZUE Capital Group.
BPK Poznań	Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 5,866,600 paid up in full. Subsidiary of ZUE.
Railway gft	Railway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full. Subsidiary of ZUE.
RTI	Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 260,000 paid up in full. Subsidiary of ZUE.
RTI Germany	Railway Technology International Germany GmbH with registered office in Görlitz, Germany, entered into the German Register of Entrepreneurs ( <i>Handelsregister B, HRB</i> ) maintained by the District Court in Dresden ( <i>Amtsgericht Dresden</i> ) under entry number HRB 36690. Share capital of EUR 25,000 paid up in full.  Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
ZUE Group, Group, Capital Group	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Journal of Laws of 2019, item 505).

Share capital details as at 30 September 2019.

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## II. Selected financial information of the Capital Group

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

	Balance at 30-09-2019		Balance at 31-12-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	183,987	42,068	182,498	42,441
Current assets	403,366	92,227	447,064	103,968
<b>Total assets</b>	<b>587,353</b>	<b>134,295</b>	<b>629,562</b>	<b>146,409</b>
Equity	150,693	34,455	146,748	34,127
Non-current liabilities	39,988	9,143	36,402	8,466
Current liabilities	396,672	90,697	446,412	103,816
<b>Total equity and liabilities</b>	<b>587,353</b>	<b>134,295</b>	<b>629,562</b>	<b>146,409</b>

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

	Period ended 30-09-2019		Period ended 30-09-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Sales revenue	748,258	173,666	555,855	130,682
Cost of sales	725,083	168,287	538,349	126,566
<b>Gross profit (loss) on sales</b>	<b>23,175</b>	<b>5,379</b>	<b>17,506</b>	<b>4,116</b>
Operating profit (loss)	7,184	1,667	1,551	365
Gross profit (loss)	6,729	1,562	2,199	517
<b>Net profit (loss) from continuing operations</b>	<b>3,966</b>	<b>920</b>	<b>1,968</b>	<b>463</b>
Total comprehensive income	3,943	915	1,965	462

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

	Period ended 30-09-2019		Period ended 30-09-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-84,785	-19,678	-84,054	-19,761
Cash flows from investing activities	-485	-113	-17,572	-4,131
Cash flows from financing activities	9,013	2,092	6,597	1,551
<b>Total net cash flows</b>	<b>-76,257</b>	<b>-17,699</b>	<b>-95,029</b>	<b>-22,341</b>
Cash at the beginning of the period	81,723	19,005	117,748	28,231
Cash at the end of the period	5,460	1,248	22,741	5,324

Rules adopted to translate selected financial information into EUR:

Item	Exchange rate	Exchange rate on	Exchange rate on	Exchange rate on
		30-09-2019	31-12-2018	30-09-2018
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.3736	4.3000	n/a
Items of statement of profit or loss and statement of cash flows	Arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month of the period	4.3086	n/a	4.2535
"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	4.3736	4.3000	4.2714



### III. Selected financial information of ZUE S.A.

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

	Balance at 30-09-2019		Balance at 31-12-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	183,374	41,927	181,913	42,305
Current assets	374,940	85,728	414,705	96,443
<b>Total assets</b>	<b>558,314</b>	<b>127,655</b>	<b>596,618</b>	<b>138,748</b>
Equity	149,919	34,278	146,242	34,010
Non-current liabilities	38,196	8,733	34,480	8,019
Current liabilities	370,199	84,644	415,896	96,719
<b>Total equity and liabilities</b>	<b>558,314</b>	<b>127,655</b>	<b>596,618</b>	<b>138,748</b>

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

	Period ended 30-09-2019		Period ended 30-09-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Sales revenue	707,422	164,188	507,241	119,253
Cost of sales	687,588	159,585	493,407	116,000
<b>Gross profit (loss) on sales</b>	<b>19,834</b>	<b>4,603</b>	<b>13,834</b>	<b>3,253</b>
Operating profit (loss)	6,258	1,452	594	140
Gross profit (loss)	6,341	1,472	1,766	415
<b>Net profit (loss) from continuing operations</b>	<b>3,700</b>	<b>859</b>	<b>1,252</b>	<b>294</b>
Total comprehensive income	3,677	853	1,249	294

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

	Period ended 30-09-2019		Period ended 30-09-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-81,505	-18,917	-82,887	-19,487
Cash flows from investing activities	-827	-192	-17,634	-4,146
Cash flows from financing activities	7,247	1,682	6,114	1,437
<b>Total net cash flows</b>	<b>-75,085</b>	<b>-17,427</b>	<b>-94,407</b>	<b>-22,196</b>
Cash at the beginning of the period	79,404	18,466	116,144	27,846
Cash at the end of the period	4,313	986	21,759	5,094

Rules adopted to translate selected financial information into EUR:

Item	Exchange rate	Exchange rate on	Exchange rate on	Exchange rate on
		30-09-2019	31-12-2018	30-09-2018
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.3736	4.3000	n/a
Items of statement of profit or loss and statement of cash flows	Arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month of the period	4.3086	n/a	4.2535
"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	4.3736	4.3000	4.2714



## ZUE Capital Group

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# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED 30 SEPTEMBER 2019

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Cracow, 19 November 2019

#### IV. Condensed consolidated financial statements of the Capital Group

##### Consolidated statement of comprehensive income

Continuing operations	Note no.	9 months ended 30-09- 2019	3 months ended 30-09- 2019	9 months ended 30-09- 2018	3 months ended 30-09- 2018
Sales revenue	4.3.1.	748,258	268,451	555,855	236,743
Cost of sales	4.3.2.	725,083	258,621	538,349	231,368
<b>Gross profit (loss) on sales</b>		<b>23,175</b>	<b>9,830</b>	<b>17,506</b>	<b>5,375</b>
General and administrative expenses	4.3.2.	16,410	5,711	15,858	5,407
Other operating income	4.3.3.	973	714	1,135	157
Other operating expenses	4.3.4.	554	262	1,232	38
<b>Operating profit (loss)</b>		<b>7,184</b>	<b>4,571</b>	<b>1,551</b>	<b>87</b>
Financial income	4.3.5.	1,164	190	1,714	928
Financial expenses	4.3.6.	1,619	654	1,066	337
<b>Pre-tax profit (loss)</b>		<b>6,729</b>	<b>4,107</b>	<b>2,199</b>	<b>678</b>
Corporate income tax	4.3.7.	2,763	1,284	231	-78
<b>Net profit (loss) from continuing operations</b>		<b>3,966</b>	<b>2,823</b>	<b>1,968</b>	<b>756</b>
<b>Net profit (loss)</b>		<b>3,966</b>	<b>2,823</b>	<b>1,968</b>	<b>756</b>
<b>Other net comprehensive income</b>					
<b>Items that will not be reclassified subsequently to profit or loss:</b>		<b>-23</b>	<b>0</b>	<b>-3</b>	<b>0</b>
Actuarial gains (losses) relating to specific benefit schemes		-23	0	-3	0
<b>Other total net comprehensive income</b>		<b>-23</b>	<b>0</b>	<b>-3</b>	<b>0</b>
<b>Total comprehensive income</b>		<b>3,943</b>	<b>2,823</b>	<b>1,965</b>	<b>756</b>
Number of shares		23,030,083	23,030,083	23,030,083	23,030,083
<b>Consolidated net profit attributable to:</b>					
Shareholders of the parent		3,975	2,818	1,808	670
Non-controlling interests		-9	5	160	86
Net profit (loss) per share (PLN) attributable to shareholders of the parent (basic and diluted)		0.17	0.12	0.08	0.03
<b>Total comprehensive income attributable to:</b>					
Shareholders of the parent		3,952	2,818	1,805	670
Non-controlling interests		-9	5	160	86
Total comprehensive income per share (PLN)		0.17	0.12	0.08	0.03

## Consolidated statement of financial position

	Note no.	Balance at 30-09-2019	Restated Balance at 31-12-2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4.7.1.	57,754	104,700
Investment property	4.7.2.	5,973	5,265
Intangible assets	4.7.3.	444	8,616
Right-of-use assets	4.7.4.	58,367	0
Goodwill	4.7.5.	31,172	31,172
Retentions on construction contracts	4.4.2.	9,734	9,720
Deferred tax assets	4.3.7.	20,352	22,876
Other assets		191	149
<b>Total non-current assets</b>		<b>183,987</b>	<b>182,498</b>
<b>Current assets</b>			
Inventories	4.7.8.	36,288	48,720
Trade and other receivables	4.5.1.	177,345	179,562
Measurement of long-term construction contracts	4.4.1.	165,348	114,910
Retentions on construction contracts	4.4.2.	5,912	3,021
Advance payments	4.4.4.	12,025	15,275
Current tax assets	4.3.7.	0	0
Advanced loans	4.7.7.	0	2,813
Other assets		988	1,040
Cash and cash equivalents	4.6.4.	5,460	81,723
<b>Total current assets</b>		<b>403,366</b>	<b>447,064</b>
<b>Total assets</b>		<b>587,353</b>	<b>629,562</b>

	Note no.	Balance at 30-09-2019	Restated Balance at 31-12-2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		5,758	5,758
Share premium account		93,837	93,837
Treasury shares		-2,690	-2,690
Retained earnings		53,671	49,717
<b>Total equity attributable to shareholders of the parent company</b>		<b>150,576</b>	<b>146,622</b>
Equity attributable to non-controlling interests		117	126
<b>Total equity</b>		<b>150,693</b>	<b>146,748</b>
<b>Non-current liabilities</b>			
Long-term loans and bank credits	4.6.1.	0	0
Non-current lease liabilities	4.6.2.	14,070	14,815
Retentions on construction contracts	4.4.2.	13,511	11,371
Other financial liabilities		0	70
Liabilities under employee benefits		2,098	1,994
Long-term provisions	4.4.3.	10,309	8,152
<b>Total non-current liabilities</b>		<b>39,988</b>	<b>36,402</b>
<b>Current liabilities</b>			
Trade and other payables	4.5.2.	150,205	219,194
Accruals	4.4.5.	100,670	62,428
Measurement of long-term construction contracts	4.4.1.	11,418	7,047
Retentions on construction contracts	4.4.2.	16,631	8,312
Advance payments	4.4.4.	31,642	75,009
Short-term loans and bank credits	4.6.1.	29,866	7,907
Current lease liabilities	4.6.2.	11,809	13,001
Other financial liabilities		176	316
Liabilities under employee benefits		26,914	23,455
Current tax liabilities	4.3.7.	0	4
Short-term provisions	4.4.3.	17,341	29,739
<b>Total current liabilities</b>		<b>396,672</b>	<b>446,412</b>
<b>Total liabilities</b>		<b>436,660</b>	<b>482,814</b>
<b>Total equity and liabilities</b>		<b>587,353</b>	<b>629,562</b>

## 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
<b>Balance at</b>	<b>1 January 2019</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>49,717</b>	<b>146,622</b>	<b>126</b>	<b>146,748</b>
Change of interest in subsidiaries		0	0	0	0	0	0	0
Payment of dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	3,975	3,975	-9	3,966
Other net comprehensive income		0	0	0	-23	-23	0	-23
Other		0	0	0	2	2	0	2
<b>Balance at</b>	<b>30 September 2019</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>53,671</b>	<b>150,576</b>	<b>117</b>	<b>150,693</b>
<b>Balance at</b>	<b>1 January 2018</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>112,605</b>	<b>209,510</b>	<b>-91</b>	<b>209,419</b>
Change of interest in subsidiaries		0	0	0	-19	-19	8	-11
Payment of dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	1,808	1,808	160	1,968
Other net comprehensive income		0	0	0	-3	-3	0	-3
<b>Balance at</b>	<b>30 September 2018</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>114,391</b>	<b>211,296</b>	<b>77</b>	<b>211,373</b>
<b>Balance at</b>	<b>1 January 2018</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>112,605</b>	<b>209,510</b>	<b>-91</b>	<b>209,419</b>
Change of interest in subsidiaries		0	0	0	-19	-19	8	-11
Payment of dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	-62,794	-62,794	209	-62,585
Other net comprehensive income		0	0	0	-75	-75	0	-75
<b>Balance at</b>	<b>31 December 2018</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>49,717</b>	<b>146,622</b>	<b>126</b>	<b>146,748</b>

## Consolidated statement of cash flows

(PLN '000)

	9 months ended 30-09-2019	9 months ended 30-09-2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit / (loss) before tax</b>	<b>6,729</b>	<b>2,199</b>
<b>Adjustments for:</b>		
Depreciation and amortisation	9,781	8,050
Foreign exchange gains / (losses)	6	-37
Interest and share in profit (dividends)	995	652
(Gain) / loss on disposal of investments	-107	6
<b>Operating profit (loss) before changes in working capital</b>	<b>17,404</b>	<b>10,870</b>
Change in receivables, measurement of contracts and retentions on construction contracts and advance payments	-47,920	-110,267
Change in inventories	12,434	-19,899
Change in provisions and liabilities under employee benefits	-6,706	5,109
Change in payables, measurement of contracts and retentions on construction contracts, advance payments and accruals, excluding loans and bank credits and lease liabilities	-59,815	30,022
Change in prepayments	52	111
Income tax paid / tax refund	-234	0
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>-84,785</b>	<b>-84,054</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of property, plant and equipment and intangible assets	238	885
Purchase of property, plant and equipment and intangible assets	-3,678	-15,413
Sale / (purchase) of financial assets in related parties	-35	-58
Sale / (purchase) of financial assets from non-controlling shareholders	0	-11
Advanced loans	-17	-3,288
Repayment of advanced loans	2,817	102
Interest received	190	211
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>-485</b>	<b>-17,572</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loans and bank credits received	50,170	19,091
Repayment of loans and bank credits	-28,189	-851
Decrease in lease liabilities	-11,977	-10,858
Lease interest paid	-742	-593
Other interest paid	-249	-192
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>9,013</b>	<b>6,597</b>
<b>TOTAL NET CASH FLOWS</b>	<b>-76,257</b>	<b>-95,029</b>
Net foreign exchange gains / (losses)	-6	22
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>81,723</b>	<b>117,748</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:</b>	<b>5,460</b>	<b>22,741</b>
- of limited availability	40	1



## Notes to the condensed consolidated financial statements of the Capital Group

### 1. General information

#### 1.1. Composition of the Capital Group

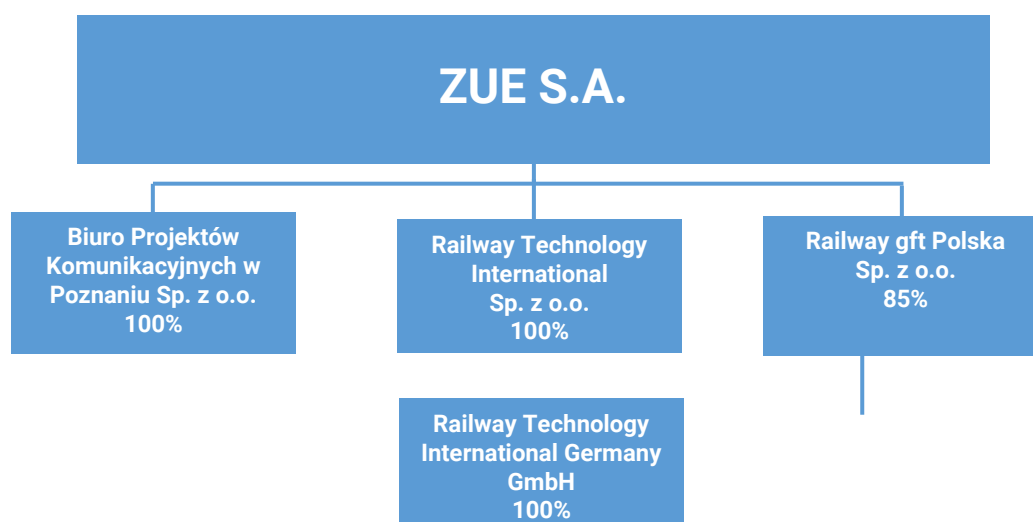
At the end of the reporting period, the Capital Group is composed of ZUE S.A. (the Parent Company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o. and Railway Technology International Germany GmbH (indirect subsidiary).

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

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

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

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



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

**Subsidiary – Railway gft Polska Sp. z o.o.** has been established under the deed of 21 October 2014 in the Notary's Office in Cracow, the Lubicz Street no. 3 (Rep. A no. 3715/2014). Cracow is the company's registered office. The company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry no. KRS 0000532311.

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

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

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

## 1.2. Consolidated companies

Consolidated companies as at 30 September 2019:

Company name	Registered office	Shares as at		Consolidation method
		30 September 2019	31 December 2018	
ZUE S.A.	Cracow	Parent company	Parent company	
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	85%	85%	Full

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

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

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, Railway Technology International Germany GmbH was not consolidated as at 30 September 2019.

## 1.3. Changes in the Group's structure in 2019 and their consequences

No changes to the Group's structure occurred between the beginning of 2019 and the date of this report's approval.

On 12 April 2019, the Extraordinary Shareholders Meeting of RTI resolved to increase the share capital of RTI from PLN 225 thousand to PLN 260 thousand through the creation of 700 new shares with a nominal value of PLN 50 each. All the new shares of the total nominal value of PLN 35 thousand were acquired by the existing shareholder; i.e. ZUE. The increase of the share capital of RTI was entered into the National Court Register on 26 April 2019.

## 1.4. Activities of the Capital Group

The Group operates in the three aggregate operating segments:

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

**Construction** activities include:

- **Urban infrastructure**, including:
  - Construction and upgrade of tram tracks, tram and trolleybus traction networks, traction substations, street lighting, cable lines, street traffic signalling, road systems, buildings and telecommunications technology;
  - Maintenance of tram and street lighting infrastructure.
- **Rail infrastructure**, including:

- Construction and upgrade of railway tracks, railway traction, railway traffic control devices and telecommunications technology, traction substations, stations and civil structures.
- **Distribution and transmission lines power infrastructure**, including:
  - Construction and upgrade of high and very high voltage cable and overhead lines, transformer stations, including telecommunications technology equipment and MV and LV cable lines.

In 2019, the Group continues to provide rail and urban infrastructure construction services.

Construction activities have been diversified recently to include civil structures so that the Company can deliver reinforced concrete projects, such as viaducts, bridges, passages, resistance walls or noise barriers, based on its skills and resources.

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

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

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

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

## 1.5. Functional and reporting currency

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

## 2. Operational information

### 2.1. Sales markets

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

Construction activities are conducted by ZUE mainly on the rail and urban infrastructure market. The table below presents the major construction contracts in progress.

Contract*	Contracting authority	Contract net value (PLNm) attributable to ZUE
Preparation of design documentation and completion of construction works in connection with the project named: LOT D – Works on the railway lines no. 131, 542 and 739 of the Rusiec Łódzki (km 137.500) – Zduńska Wola Karsznice (km 170.212) section as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-14 "Works on the railway line C-E 65 of the Chorzów Batory – Tarnowskie Góry – Karsznice – Inowrocław – Bydgoszcz – Maksymilianowo section."	PKP PLK S.A	583
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
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	285
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	270
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
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	92
Reconstruction of the tramway from the Lecha estate to the Żegrze roundabout (section II).	Poznańskie Inwestycje Miejskie Sp. z o.o.	83
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
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	64
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
Extension of the Igołomska Street, the national road no. 79 - Stage 2 together with the infrastructure in Cracow and additional contract.	City of Cracow	61
Maintenance and repair of tram tracks in Cracow in 2019-2022.	City of Cracow	56
Provision of design services and completion of construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia - Warszawa Gdańska section)."	PKP PLK S.A	52
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	56

Modernisation of E30 railway line Kraków Medyka, the Biadoliny – Tarnów section.	OHL ZS, a.s. S. A. Polish Branch	45
Maintenance and repair of tram infrastructure (traction electrical power engineering services) in Cracow in 2019-2022.	City of Cracow	41
Design services and construction works in connection with the following project: "Construction of the Czarnca - Włoszczowa Pln. railway line no. 582."	PKP PLK S.A	40
Reconstruction of track and overhead contact system in the Wyszyńskiego hub and Szarych Szeregów Square.	City of Szczecin	37
Construction of a transport hub – the Zawodzie hub as part of the following project: "Katowice System of Integrated Transport Hubs – the Zawodzie hub."	Tramwaje Śląskie S.A.	34
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
Protection of civil 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, stage I."	PKP PLK S.A	30
Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	City of Cracow	16
Reconstruction of tramway tracks along the Karmelicka Street, the Rajska Street – the Adama Mickiewicza Avenue section – construction works similar to the contract 990/ZIKiT/2018 of 3 September 2018.	City of Cracow	13

\*Contracts whose net value exceeds PLN 10m.

Design services relating to urban and rail transport systems are provided to both investors and companies which execute "design-build" projects. The biggest customers of BPK Poznań in the reporting period included: PKP Polskie Linie Kolejowe S.A., Pomorska Kolej Metropolitalna S.A., BALZOLA Sp. z o.o., Poznańskie Inwestycje Miejskie, PGE Dystrybucja S.A. Rzeszów Branch, PGE Dystrybucja S.A. Zamość Branch, COLAS POLSKA SP. Z O.O., ZKM w Gdańsku Sp. z o.o., UG Świętochłowice and MGGP.

Sales activities conducted by Railway gft included the sale of rails, track accessories, sleepers, rail fastening systems and aggregate. The major customers in 2019 included: Kolejowe Zakłady Nawierzchniowe "Biezanów" Sp. z o. o., Przedsiębiorstwo Inżynieryjnych Robót Kolejowych "TOR-KRAK" Sp. z o.o., NDI S.A., Aldesa Construcciones Polska Sp. z o.o, Tramwaje Warszawskie Sp. z o.o. and Torhamer Sp. z o.o.

## 2.2. Backlog

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

At this report preparation date, the net value of the contracted construction and assembly services is PLN 2,004m. This provides the Group with an ability to carry out the works in the period 2019-2021. As for design services, the net value of the signed contracts scheduled for performance in 2019-2020 is PLN 6.9m. The backlog relating to the supply of materials and equipment in 2019 is worth PLN 11.2m (net).

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 or the contract award date is postponed because Contracting Authorities apply for additional funding.

## 2.3. Issuer's major achievements or failures

In the three quarters of 2019, both the Group and the Company reported a year-on-year increase in sales revenue by 35% and 39%, respectively. A significant improvement was also seen in all financial results. By this report publication date, the Company won the new contracts in 2019 whose total net value amounted to approx. PLN 712m.

Financial results are discussed in detail in the note no. 4.1.

No major events other than operating events discussed in detail in the note 2.5 and 2.6 below occurred by this report preparation date.

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

Following the conclusion of the contract of 6 February 2019 between the Company and PKP Polskie Linie Kolejowe S.A. for the provision of design services and completion of works on the Warszawa Włochy – Ożarów Mazowiecki section, the railway line no. 3, in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16: Improvement of capacity of E20 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" of the net value of PLN 12m, the total net value of the contracts between the companies within the PKP PLK Group and the companies within the ZUE Group signed since 12 October 2018 amounted to approx. PLN 25.7m. **(Current report 3/2019)**

On 28 March 2019, the Company learnt about the cancellation by PKP PLK of the tender procedure for the project named: Preparation of design documentation and completion of construction works as part of the following contract: "Construction of the integrated transport system including a tunnel under the tracks of the Skarżysko Kamienna railway station." The Company informed about the submission of the most economically advantageous tender in the current report 46/2018 of 29 October 2018. **(Current report 9/2019)**

On 27 June 2019, the Company entered into the construction contract with R.D.M. Śródmieście Sp. z o.o. with registered office in Cracow (the "Subcontractor"). Following the conclusion of the said contract, the total net value of the contracts between ZUE and the Subcontractor signed in the past year amounted to approx. PLN 15.4m. **(Current report 23/2019)**

On 3 July 2019, the Company received a signed annex (the "Annex") to the contract with PKP PLK for the completion of design and construction services as part of the project named: "Construction of the Czarnca - Włoszczowa Pln. railway line no. 582" (the "Contract"). The Company informed about the Contract performance in the current report 81/2017 of 28 December 2017. Under the Annex, the project completion deadline was extended by approximately 7 months. **(Current report 26/2019)**

On 22 July 2019, the Company learnt about the selection on the same date by the City of Szczecin (the "Contracting Authority") of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the project named: "Completion of construction works relating to the reconstruction of track and overhead contact system in the Wyszyńskiego hub and Szarych Szeregów Square." The Company informed about the submission of the most economically advantageous tender in the current report 8/2019. Net value of the tender submitted by the Company: PLN 36.5m. Gross value of the tender submitted by the Company: PLN 44.9m. Project completion date: 450 calendar days of the contract conclusion date. **(Current report 28/2019)**

On 14 August 2019, the Management Board of ZUE learnt about the oral judgment (the "Judgment") delivered on the same date by the VII Commercial Division of the District Court in Białystok (the "Court"). The Court ordered that the judgment of 22 May 2019 delivered by the National Appeals Chamber (the "Chamber") (reported by the Company in the current report 14/2019) be changed by dismissing the entire appeal of the Company and ELKOL Sp. z o.o. with registered office in Bytom (the "Consortium") against the selection by Elektrownia Ostrołęka Sp. z o.o. (the "Contracting Authority") of the most economically advantageous tender submitted in the tender procedure concerning the reconstruction of the rail infrastructure system required to operate Elektrownia Ostrołęka C (the "Tender Procedure"). The Consortium cannot appeal against the abovementioned Judgment. **(Current report 32/2019)**

On 20 August 2019, the annex to the contract with Kolejowe Zakłady Automatyki S.A. with registered office in Katowice was signed and the Company informed thereof in the current report 61/2017. The contract net value increased by the net amount of approx. PLN 3.7m and the contract should be performed by the end of March 2020. **(Current report 33/2019)**

On 6 September 2019, the Company and Zarząd Dróg Miasta Krakowa (ZDMK) signed the two contracts for:



- 1) Maintenance and repair of tram tracks in Cracow in 2019-2022. (Contract 1).
- 2) Maintenance and repair of tram infrastructure relating to traction electrical power engineering in Cracow in 2019-2022. (Contract 2).

The Contract 1 and the Contract 2 are the two components of the tram infrastructure maintenance in Cracow. The Company informed about the selection of the most economically advantageous tenders in the current reports 30/2019 and 31/2019, respectively. Net value of the Contract 1: PLN 56.0m (gross value: PLN 68.9m). Net value of the Contract 2: PLN 40.8m (gross value: PLN 50.2m). Completion of the Contract 1 and the Contract 2: 1.10.2019 – 30.09.2022 **(Current report 34/2019)**

On 17 September 2019, the Company and PKP PLK signed the contract for the following project: Preparation of design documentation and completion of construction works in connection with the project named: LOT D – Works on the railway lines no. 131, 542 and 739 of the Rusiec Łódzki (km 137.500) – Zduńska Wola Karsznice (km 170.212) section as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-14 “Works on the railway line C-E 65 of the Chorzów Batory – Tarnowskie Góry – Karsznice – Inowrocław – Bydgoszcz – Maksymilianowo section.” The Company informed about the selection of the most economically advantageous tender in the current report 22/2019. The contract net value including the provisional sum: PLN 582.7m. The contract gross value: PLN 716.7m. Completion of the tasks under the contract: 41 months of the contract conclusion date. **(Current report 35/2019)**

#### Financial agreements:

On 22 January 2019, the Company entered into the agreement with CaixaBank S.A. Polish Branch with registered office in Warsaw. The agreement was concluded for 12 months and could be extended. The agreement provided for the bank guarantee limit of up to PLN 30m (the Limit) within which the Company could apply for bid bonds (up to the Limit), advance payment bonds (up to PLN 10m), performance bonds and defects liability bonds (up to PLN 10m). The limit was not initiated at this report preparation date. **(Current report 1/2019)**

On 1 March 2019, the Company received a signed annex to the multi-purpose revolving credit limit with Bank Polska Kasa Opieki S.A. with registered office in Warsaw (PEKAO) (the Annex). The Company informed about the said agreement in the current reports 20/2017 and 74/2017. Under the Annex, the term of the limit (PLN 100m) was extended until 30 November 2019 and the use thereof was limited to bank guarantees (up to the maximum amount of the Limit) of any type (including, in particular, bid bonds, performance bonds and defects liability bonds) provided at the Company's request to secure the contracts carried out by the Company. **(Current report 5/2019)**

On 8 March 2019, the Company published preliminary financial results for 2018. **(Current report 6/2019)**

On 19 July 2019, the Company published preliminary financial results for the first half of 2019. **(Current report 27/2019)**

On 25 September 2019, the Company and Bank Millennium S.A. signed the factoring agreement with the transfer of risk concerning the Company's claims under the performed construction contracts. The limit stipulated in the agreement was PLN 15m. The agreement was concluded for an indefinite period and the limit expiry date was set as 21 September 2020. **(Current report 36/2019)**

#### Corporate events:

On 8 May 2019, the Management Board of ZUE passed the resolution on recommendations to the Company's Ordinary General Meeting for covering the net loss for the financial year 2018 of PLN 64m from capital reserve and reserve funds. The Company's Supervisory Board approved of the said recommendations. **(Current reports 11/2019 and 15/2019)**

On 6 June 2019, the Company's Ordinary General Meeting resolved to cover the net loss for the financial year 2018 of PLN 64m from capital reserve and reserve funds and to appoint the Company's Supervisory Board for the new 3-year term. **(Current reports 17/2019 and 18/2019)**

On 6 June 2019, the Company's Supervisory Board appointed members to the Company's Management Board for the new 3-year term. **(Current report 19/2019)**

On 31 July 2019, the Company and Elektrobudowa S.A. with registered office in Katowice (Elektrobudowa) entered into the trilateral settlement agreement with MPK (the “Settlement Agreement”). The Settlement

Agreement was signed in connection with the suit filed with the District Court of Poznań against the Company and Elektrobudowa by Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu sp. z o.o. (MPK, the "Contracting Authority"). In their suit MPK demanded that ZUE and Elektrobudowa pay on a joint and several basis the total amount of approx. PLN 20.2m as contractual penalties plus statutory interest and the costs of the proceedings. The Company informed about the suit in the current report 4/2019. Under the Settlement Agreement, the Company and Elektrobudowa were obliged to pay on a joint and several basis PLN 2.2m to MPK in four instalments between October 2019 and January 2021. The Company and Elektrobudowa agreed that PLN 1m was attributable to ZUE and would be paid, as previously reported, from the provision established by the Company in connection with the proceedings. On the basis of the Settlement Agreement, all claims between the Contractor (the Company and Elektrobudowa) and the Contracting Authority relating to the project were waived excluding MPK's claims against the Contractor relating to guaranty and warranty. **(Current report 29/2019)**

## 2.6. Major events after the end of the reporting period

On 1 October 2019, the Company and ZK "LEV INS" AD with registered office in Sofia (the "Counterparty") entered into the agreement whereby the performance and defects liability bond (the "Bond") was issued by the Counterparty to secure the Company's performance of the LOT D railway construction contract. The Company informed about the conclusion of the contract in the current report 35/2019. Apart from the said Bond, the Company was provided with bond limits by other entities. The amount of the Bond was PLN 31.6m in terms of claims relating to the failure to perform or duly perform the contract and approx. PLN 18.5m in terms of claims under warranty. **(Current report 37/2019)**

On 4 November 2019, the Company and the City of Szczecin signed the contract for the following project: "Reconstruction of the track and overhead contact system in the Wyszyńskiego hub and Szarych Szeregów Square." Net value of the contract: PLN 36.5m. Project completion date: 450 calendar days. **(Current report 38/2019)**

On 19 November 2019, the loan agreement was concluded between the Company and Agencja Rozwoju Przemysłu S.A. with registered office in Warsaw. The loan of up to PLN 20m would be used to finance day-to-day operations. The Company can initiate the loan by 15 March 2020. The loan would be repaid in equal monthly instalments between 30 April 2020 and June 2022. **(Current report 39/2019)**

## 2.7. Bonds, guarantees, credit limits and advanced loans

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

As at 30 September 2019:

- The amount of the bonds issued by the Group to third parties: PLN 503,610 thousand;
- The amount of the bonds issued by the Company to third parties: PLN 493,279 thousand;
- The amount of unused bond lines at the Group: PLN 306,638 thousand (including PLN 20,000 thousand which may be allocated to revolving credit);
- The amount of unused bond lines at the Company: PLN 304,818 thousand (including PLN 20,000 thousand which may be allocated to revolving credit);
- The amount of unused credits at the Group: PLN 24,393 thousand (including PLN 20,000 thousand which may be allocated to bonds); and
- The amount of unused credit lines at the Company: PLN 22,419 thousand (including PLN 20,000 thousand which may be allocated to bonds).

The following agreements and annexes were signed in the reporting period:

- Annex to the mandate agreement for the provision of project-related bonds with Gothaer Towarzystwo Ubezpieczeń S.A. (now Wiener) whereby the term of the agreement was extended until 31 December 2019;
- General bond agreement with UNIQA Towarzystwo Ubezpieczeń S.A. The new agreement is effective until 27 August 2020;
- Annex to the mandate agreement for the provision of bonds with AXA Ubezpieczenia Towarzystwo Ubezpieczeń i reasekuracji S.A. whereby the term of the agreement was extended until 31 October 2020;
- PLN 10m performance and defects liability bond agreement with ZK Lev Ins;
- PLN 5m performance bond agreement with TUW Polski Gaz;



- PLN 4m performance bond agreement with TUW Medicum.

At the end of the reporting period, the amount of the loans granted by ZUE is PLN 235 thousand and the amount of the loans granted at the Group is PLN 0 thousand.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total amount of the guarantees as at 30 September 2019 is PLN 24 651 thousand, including PLN 19,500 thousand to guarantee the liabilities of Railway gft.

The Company guaranteed the liabilities of Railway gft in connection with the following bank agreements:

- Bond line master agreement with mBank S.A. – the guarantee of PLN 8m between July 2015 and August 2023;
- Revolving credit agreement with mBank S.A. – the guarantee of PLN 5.5m between August 2015 and November 2020;
- Revolving credit agreement with BNP Paribas S.A. – the guarantee of PLN 6m between December 2016 and August 2027.

No loans or bonds whose total value would be significant were provided in the three months of 2019 by the Parent Company or the subsidiaries to any single entity outside the Capital Group (or any subsidiary thereof).

After the end of the reporting period, on 1 October 2019, the Company:

- Entered into the agreement with ZK "LEV INS" AD of Sofia (the Counterparty) whereby the performance and defects liability bond in the total amount of PLN 31.6m had been issued by the Counterparty.
- Entered into the performance bond agreement of PLN 4.6m with Generali TU.

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

No unusual items with significant influence on assets, liabilities, equity, net profit or cash flows other than specified herein occurred in the reporting period.

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

The factors believed to have a bearing on the Group's financial results include:

- Untimely settlement of liabilities to the Group by Contracting Authorities;
- Delays or unfavourable outcome of tender procedures including the Group;
- Increase in the prices of raw materials and liquid fuels;
- Increase in the fees charged by subcontractors;
- Unstable EUR/PLN rate; and
- Outcome of court proceedings.

The Directors' Report on the activities of the Capital Group in the first half of 2019 contains a detailed description of the abovementioned factors.

No significant changes have been identified when comparing the abovementioned factors with the information contained in the half-yearly report.

#### **2.10. Risks believed by the Group to have an influence on its performance**

- Risk related to financial liquidity in the construction sector;
- Risk related to logistics;
- Risk related to the failure of making the site available by the date specified in a contract;
- Risk related to obtaining administrative decisions, ability to appeal against administrative decisions and third parties' activities influencing the Group's design or construction services;
- Risk related to inaccurate estimate of the costs of planned and performed contracts;
- Risk related to joint and several liability to subcontractors and consortium members;
- Risk related to improper performance of contracts by key counterparties;
- Risk related to bonds, contractual penalties and the related litigations;
- Risk related to bankruptcy of counterparties;
- Risk related to guarantee of payment for construction works;

- Risk related to change of law, including tax law;
- Risk related to obtaining new contracts;
- Risk related to growing competition;
- Risk related to terms and procedures of awarding contracts and exclusions from public tenders;
- Risk related to the European co-funding of railway projects;
- Risk related to the obtaining of funds required to perform construction contracts as well as performance and bid bonds;
- Risk related to weather conditions;
- Risk related to social and economic situation in Poland;
- Risk related to interest rates; and
- Risk related to unstable margins.

The Directors' Report on the activities of the Capital Group in the first half of 2019 contains a detailed description of the abovementioned risks.

No significant changes have been identified when comparing the abovementioned risks with the information contained in the half-yearly report.

### **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 influencing 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 current EU perspective. Projects on the urban market depend on the budgetary objectives of local self-governments.

Rail and urban infrastructure construction projects undertaken by the Group cannot be carried out executed in unfavourable weather conditions. Due to low temperature or 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 2019-2021 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 services on the track materials manufacture and distribution market.

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

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

The strategic objectives are pursued taking into consideration non-financial issues such as human rights, employees' rights, the impact on local environment or environmental protection.

### **Prospects of the markets the Group operates in:**

#### **Rail infrastructure construction market**

The Polish rail infrastructure construction market is witnessing the execution of the biggest ever railway modernisation project – the National Railway Programme (the "NRP"). In September 2019, the amount of the NRP

was raised by PLN 5.7bn to the total amount of more than PLN 75bn<sup>1</sup>. The pending projects are worth approx. PLN 40bn<sup>2</sup>. The entire programme is scheduled for completion by 2023. Project documents are also prepared for contracts funded under the next financial perspective. PKP PLK has revealed that in 2021 it will be ready to announce tenders for contracts worth PLN 30-40bn. This is to ensure the continuity of operations and prevent the occurrence of so-called peaks and decays between EU perspectives, which exerted a negative impact on the industry in the past. Apart from modernization projects, the next perspective (from 2021) will also cover the construction of new railway lines, including under the Central Communication Port project with a railway component (construction of the new lines of approx. 1,600 km).

#### Urban infrastructure construction market

Since 2018, the cities with tram infrastructure have demonstrated increased activity in announcing urban infrastructure tenders. The urban market is the Company's major path of backlog diversification. ZUE aims to increase the share of the urban backlog by winning "build" and "maintain" contracts.

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<sup>1</sup> <https://www.rynek-kolejowy.pl/wiadomosci/krajowy-program-kolejowy-zwiekszony-o-kolejne-57-mld-zl-93578.html>

<sup>2</sup> <https://www.rynek-kolejowy.pl/wiadomosci/bittel-jeszcze-trzy-umowy-i-przekroczymy-50-miliardow-92850.html>

### 3. Corporate information

#### 3.1. Governing bodies of the Parent Company

The composition of the Company's Management Board has not changed during the reporting period or by the date of preparation of these consolidated financial statements.

Composition of the Company's Management and Supervisory Boards at the date of approval of these financial statements:

##### Management Board:

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

##### Supervisory Board:

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

##### Audit Committee:

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

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

#### 3.2. Share capital structure

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

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

#### 3.3. Treasury shares

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

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

### 3.4. Shareholders of the Parent Company

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

Shareholder	Number of shares/votes at 19 November 2019	% of the share capital/total number of votes	Number of shares/votes at the date of publication of the last interim report <sup>(1)</sup>	% 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 <sup>(2)</sup>	6.08	1,400,000 <sup>(2)</sup>	6.08
PKO Bankowy OFE	1,500,000 <sup>(3)</sup>	6.51	1,500,000 <sup>(3)</sup>	6.51
NN Investment Partners TFI	1,671,345 <sup>(4)</sup>	7.26	1,671,345	7.26
Other	4,058,418 <sup>(5)</sup>	17.62	4,058,418 <sup>(5)</sup>	17.62
<b>Total</b>	<b>23,030,083</b>	<b>100</b>	<b>23,030,083</b>	<b>100</b>

(1) Publication of the last interim report (Consolidated Report of the Group for 1H 2019): 20 August 2019.

(2) Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of ZUE held on 8 December 2014 provided in the current report 41/2014 of 8 December 2014.

(3) Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of ZUE held on 18 June 2014 provided in the current report 31/2014 of 18 June 2014.

(4) Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of ZUE held on 6 June 2019 provided in the current report 20/2019 of 12 June 2019.

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

### 3.5. ZUE shares held by members of the Issuer's management and supervisory bodies

According to the information held by the Management Board of ZUE at this report preparation date, ZUE shares were held by the following members of the Issuer's management and supervisory bodies.

Shareholder	Position	Number of shares/votes at 19 November 2019	% of share capital/total number of votes	Changes in shareholding since the publication of the last interim report; i.e. since 20 August 2019.
Wiesław Nowak	Management Board President	14,400,320	62.53	None
Marcin Wiśniewski	Management Board Vice-President	2,300	0.01	None
Jerzy Czeremuga	Management Board Vice-President	136	< 0.01	None
Maciej Nowak	Management Board Vice-President	7,806	0.03	None
Michał Lis	Supervisory Board Member	661	< 0.01	None

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

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

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

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

### 3.7. Issue and redemption of debt and equity securities

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

### 3.8. Dividend

No dividend was paid the Company in the reporting period.

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

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

## 4. Financial information

### 4.1. Factors and events with significant influence on the Group's financial results for the three quarters of 2019

Construction contracts performed by ZUE are the Group's main source of income. In the three quarters of 2019, 93% of the Group's revenue was derived from construction activities. The Company's backlog of approx. PLN 2bn mainly includes the construction contracts won since 2016 and carried out as part of the National Railway Programme until 2023 whose amount exceeds PLN 75bn. The Group's participation in the said Programme contributes to a dynamic increase in ZUE's revenue. The Company's revenue generated in the three quarters of 2019 is almost as high as ZUE's annual revenue reported in 2018. The Company systematically expands its backlog to include both railway and urban contracts. Since the beginning of 2019, the Company has won the new contracts of the total net value of approx. PLN 712m. The projects carried out by the Company include the railway contracts won in hard times of 2016/2017. They are the low-margin contracts and the reasons for this include the factors beyond the Company's control such as growing costs of project execution and no real price indexation. The Company is making claims to change the amount of remuneration of the contractor involved in the performance of the railway contracts if there are risks unrelated to the contractor.

#### Discussion of major items of the statement of profit or loss

In the three quarters of 2019, the sales revenue reported by the Group amounted to PLN 748,258 thousand – up by 35% compared to the sales revenue reported in the analogous period of 2018. The sales revenue reported by the Company amounted to PLN 707,422 thousand (a year-on-year increase by 39%). The Group's revenue in the third quarter of 2019 was PLN 268,451 thousand; i.e. 36% of the revenue earned in the three quarters of 2019 (ZUE: PLN 251,682 thousand; i.e. 36%).

Comparison of the results reported by ZUE and the Group:

Item	ZUE		Group	
	30-09-2019	30-09-2018	30-09-2019	30-09-2018
Sales revenue	707,422	507,241	748,258	555,855
Gross profit (loss) on sales	19,834	13,834	23,175	17,506
Operating profit (loss) (EBIT) **	6,258	594	7,184	1,551
EBITDA***	15,910	8,525	16,965	9,601
Pre-tax profit (loss)	6,341	1,766	6,729	2,199
Net profit (loss)	3,700	1,252	3,966	1,968

\* Operating profit + depreciation / amortisation.

\*\* EBIT, EBITDA measures unspecified by the IFRS.

Compared with the analogous period of 2018, the Group's gross profit on sales in the three quarters of 2019 grew by PLN 5,669 thousand; i.e. by 32%. The Company's gross profit on sales grew by PLN 6,000 thousand; i.e. by 43%.

The Group's general and administrative expenses in the reporting period increased over the year by 3% to PLN 16,410 thousand. The Company's general and administrative expenses in the reporting period increased over the year by 1% to PLN 13,315 thousand.

The Group's other operating income in the period under analysis stood at PLN 973 thousand and decreased year on year by 14%. Other operating income reported in the same period by the Company amounted to PLN 214 thousand – a year-on-year decrease by 74%. The results have been presented in detail in the note no. 4.3.3. of the consolidated financial statements and the note no. 2.1.3. of the separate financial statements.

The Group's other operating expenses amounted to PLN 554 thousand – down by 55% when compared with the figure reported in the analogous period of 2018 (ZUE: PLN 475 thousand – a year-on-year decrease by 46%). The results have been presented in detail in the note no. 4.3.4. of the consolidated financial statements and the note no. 2.1.4. of the separate financial statements.

The Group's operating profit improved over the year by PLN 5,633 thousand (i.e. by 363%). The analogous item reported by ZUE grew year on year by PLN 5,664 thousand (i.e. by 954%).

The Group's financial income of PLN 1,164 thousand decreased over the year by 32%. The Company's financial income was PLN 1,314 – a year-on-year decrease by 29%. The results have been presented in detail in the note no. 4.3.5. of the consolidated financial statements and the note no. 2.1.5. of the separate financial statements.

The Group's financial expenses amounted to PLN 1,619 thousand – up by 52% compared to the analogous period of 2018 (ZUE: PLN 1,231 thousand – a year-on-year increase by 83%). The results have been presented in detail in the note no. 4.3.6. of the consolidated financial statements and the note no. 2.1.6. of the separate financial statements.

The Group's net profit/loss in the period under analysis increased over the year by PLN 1,998 thousand; i.e. by 102%. ZUE's net profit increased year-on-year by PLN 2,031 thousand; i.e. by 196%.

### Discussion of major balance sheet items

As at 30 September 2019, the Group's total assets and liabilities amounted to PLN 587,353 thousand and the Company's total assets and liabilities amounted to PLN 558,314 thousand.

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

Item	Change compared to 31-12-2018	Balance at 30-09-2019	Description
<b>Assets</b>			
Property, plant and equipment	-46,946	57,754	The change mainly results from the implementation of IFRS 16 discussed in the note 4.8.2.
Intangible assets	-8,172	444	The change mainly results from the implementation of IFRS 16 discussed in the note 4.8.2.
Right-of-use assets	58,367	58,367	The change mainly results from the implementation of IFRS 16 discussed in the note 4.8.2.
Measurement of long-term construction contracts	50,438	165,348	More construction works carried out in connection with performed contracts.
Cash and cash equivalents	-76,263	5,460	Use of resources to conduct operating activities.
<b>Liabilities</b>			
Trade and other payables	-68,989	150,205	Settlement of certain completed construction works.
Accruals	38,242	100,670	Increase in provisions for subcontractors in connection with performed contracts.
Advance payments	-43,367	31,642	Settlement of certain advance payments in connection with the progress in construction works.
Short-term loans and bank credits	21,959	29,866	Greater use of external financing.
Short-term provisions	-12,398	17,341	Release of certain provisions for losses on contracts in connection with the settlement of contracts.

### Discussion of items of the statement of cash flows

The Group's cash flows from operating activities of PLN (-) 84,785 thousand were mainly influenced by changes in the measurement of long-term construction contracts, payables, advance payments, accruals, short-term provisions, retentions and inventories in connection with the performance of construction contracts.

The Group's cash flows from investing activities of PLN (-) 485 thousand were mainly influenced by the purchase of non-current assets financed by own resources and the repayment of granted loans.

The Group's cash flows from financing activities of PLN 9,013 thousand were mainly influenced by the greater use of external financing and the settlement thereof and the decrease in liabilities under leases.

	ZUE		ZUE Group	
	Period ended 30-09-2019	Period ended 30-09-2018	Period ended 30-09-2019	Period ended 30-09-2018
Cash flows from operating activities	-81,505	-82,887	-84,785	-84,054
Cash flows from investing activities	-827	-17,634	-485	-17,572
Cash flows from financing activities	7,247	6,114	9,013	6,597
<b>Total net cash flows</b>	<b>-75,085</b>	<b>-94,407</b>	<b>-76,257</b>	<b>-95,029</b>
Cash and cash equivalents at the beginning of the period	79,404	116,144	81,723	117,748
Cash and cash equivalents at the end of the period	4,313	21,759	5,460	22,741

#### Discussion of the results reported by segments

The total revenue generated by the Group in the three quarters of 2019 amounted to PLN 748,258 thousand. The largest portion of the Group's revenue was derived from construction activity.

	Construction	Sales	Design	Exclusions	Total
Sales revenue	707,422	44,202	8,175	-11,541	748,258
Gross profit on sales	19,834	1,898	1,136	307	23,175
Net profit/loss	3,700	-133	82	317	3,966

The largest portion of the Group's revenue is derived from construction activity conducted by ZUE (93%). Sales activity conducted by Railway gft produced 6% of the Group's revenue. 1% of the consolidated revenue was generated by BPK Poznań, a company dealing with design services.

The note 4.3.8. contains more information about individual segments.

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

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

#### 4.3. Notes to the statement of comprehensive income

##### 4.3.1. Revenue

	Period ended 30-09-2019	Period ended 30-09-2018
Revenue from construction contracts	698,350	503,630
Revenue from the rendering of services	11,556	8,930
Revenue from the sale of goods, raw and other materials	38,352	43,295
<b>Total</b>	<b>748,258</b>	<b>555,855</b>

The Group's revenue from construction contracts includes revenue from construction and design activities.

The Group's revenue in the period from 1 January to 30 September 2019 amounted to PLN 748,258 thousand and increased by 35% over the analogous figure reported in the analogous period of 2018.



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

#### Concentration of revenue exceeding 10% of total sales revenue

	Period ended	
	30-09-2019	30-09-2018
Counterparty A	399,873	304,291
Counterparty B	77,959	
Counterparty C	74,892	

#### 4.3.2. Operating expenses

	Period ended 30-09-2019	Period ended 30-09-2018
Change in products	-2,002	-933
Depreciation and amortization	9,781	8,050
Consumption of materials and energy, including:	210,912	239,294
- consumption of materials	205,366	233,976
- consumption of energy	5,546	5,318
Contracted services	375,993	187,813
Costs of employee benefits	84,927	66,766
Taxes and charges	1,097	1,274
Other expenses	18,102	7,860
Value of goods and materials sold	42,683	44,083
<b>Total</b>	<b>741,493</b>	<b>554,207</b>

	Period ended 30-09-2019	Period ended 30-09-2018
Cost of sales	725,083	538,349
General and administrative expenses	16,410	15,858
<b>Total</b>	<b>741,493</b>	<b>554,207</b>

The Group's general and administrative expenses in the period 1 January – 30 September 2019 amounted to PLN 16,410 thousand and increased by approx. 3.5% when compared with the Group's general and administrative expenses reported in the analogous period of 2018.

#### Depreciation and amortisation

	Period ended 30-09-2019	Period ended 30-09-2018
Depreciation of property, plant and equipment	6,857	7,420
Depreciation of right-of-use assets	2,548	0
Amortisation of intangible assets	92	377
Depreciation of investments in real property	284	253
<b>Total</b>	<b>9,781</b>	<b>8,050</b>

#### 4.3.3. Other operating income

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Gain on disposal of assets:</b>	<b>107</b>	<b>135</b>
Gain on disposal of non-current assets	107	135

<b>Other operating income:</b>	<b>866</b>	<b>1,000</b>
Damages and penalties	655	142
Release of allowances for receivables	9	49
Refund of the costs of court proceedings	47	592
Release of provisions for court cases	0	86
Release of write-downs of inventories	79	57
Other	76	74
<b>Total</b>	<b>973</b>	<b>1,135</b>

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

Damages and penalties mainly include the damages paid by the counterparty for their termination of the contract.

#### 4.3.4. Other operating expenses

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Loss on disposal of assets:</b>	<b>0</b>	<b>0</b>
Loss on disposal of non-current assets	0	0
<b>Other operating expenses:</b>	<b>554</b>	<b>1,232</b>
Donations	2	18
Damages and penalties	27	514
Allowances for receivables	345	428
Costs of litigations	142	247
Other	38	25
<b>Total</b>	<b>554</b>	<b>1,232</b>

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

#### 4.3.5. Financial income

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Interest income</b>	<b>224</b>	<b>550</b>
Interest on bank deposits	140	386
Interest on loan	32	78
Interest on receivables	52	86
<b>Other financial income</b>	<b>940</b>	<b>1,164</b>
Foreign exchange gains	0	4
Discount of long-term items	939	1,158
Other	1	2
<b>Total</b>	<b>1,164</b>	<b>1,714</b>

#### 4.3.6. Financial expenses

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Interest expenses</b>	<b>1,344</b>	<b>860</b>
Interest on bank credits	268	192
Interest on loans	5	5
Interest on leases	885	593
Interest on trade and other payables	186	70

<b>Other financial expenses</b>	<b>275</b>	<b>206</b>
Foreign exchange losses	123	69
Discount of long-term items	32	26
Write-down of investments in related parties	35	58
Other	85	53
<b>Total</b>	<b>1,619</b>	<b>1,066</b>

In 2019, Interest on leases includes the interest of PLN 311 thousand on recognised leases in accordance with the implementation of IFRS 16.

#### 4.3.7. Corporate income tax

##### Corporate income tax recognised in the statement of comprehensive income

	<b>Period ended 30-09-2019</b>	<b>Period ended 30-09-2018</b>
Current income tax	234	7
Deferred tax	2,529	224
<b>Total tax expense/income</b>	<b>2,763</b>	<b>231</b>

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

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

##### Income tax according to effective interest rate

	<b>Period ended 30-09-2019</b>	<b>Period ended 30-09-2018</b>
<b>Gross profit (loss)</b>	<b>6,729</b>	<b>2,199</b>
Income tax at the applicable rate of 19%	1,279	418
<b>Effect of tax recognition of:</b>	<b>-1,296</b>	<b>-3,949</b>
- Use of tax losses brought forward	1,282	176
- Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	8,712	17,228
- Revenue not classified as revenue under tax regulations and taxable revenue that is not balance sheet revenue	8,726	21,001
Revaluation of deferred tax assets (current year loss)	17	3,538
Deferred tax	2,529	224
Income tax adjustments	234	0
<b>Income tax according to effective tax rate</b>	<b>2,763</b>	<b>231</b>
Effective tax rate	41%	11%

##### Current tax assets and liabilities

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
<b>Current tax assets</b>		

Tax refundable	0	0
<b>Current tax liabilities</b>		
Tax payable	0	4

#### Deferred tax

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Deferred tax balance at the beginning of the period</b>	<b>22,876</b>	<b>8,024</b>
<b>Temporary differences relating to deferred tax assets:</b>	<b>50,617</b>	<b>42,073</b>
Provisions for expenses and accruals	27,642	19,978
Discount of receivables	225	344
Operating lease liabilities	2,661	1,131
Write-downs	1,529	1,508
Bonds and insurances accounted for over time	1,523	1,721
Tax work in progress	14,595	17,137
Measurement of long-term contracts	2,169	23
Other	273	231
<b>Temporary differences relating to deferred tax liabilities:</b>	<b>44,841</b>	<b>45,665</b>
Measurement of long-term contracts	31,415	34,654
Difference between the carrying and tax amount of property, plant and equipment and intangible assets	12,714	10,353
Discount of payables	707	624
Other	5	34
<b>Unused tax losses and other tax credits carried forward:</b>	<b>14,576</b>	<b>11,393</b>
Tax losses	14,576	11,393
<b>Total temporary differences relating to deferred tax assets:</b>	<b>65,193</b>	<b>53,466</b>
<b>Total temporary differences relating to deferred tax liabilities:</b>	<b>44,841</b>	<b>45,665</b>
<b>Deferred tax balance at the end of the period</b>	<b>20,352</b>	<b>7,801</b>
<b>Change in deferred tax, including:</b>	<b>-2,524</b>	<b>-223</b>
- recognised in income	-2,529	-224
- recognised in equity	5	1

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

#### 4.3.8. Operating segments

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

- Construction;
- Design; and
- Sales.

The following rules are met jointly by the segments:

- Their aggregation is consistent with the objectives and principles of the IFRS 8;

- They have similar economic characteristics;
- They are similar in the following areas: the nature of the products and services, the nature of the production process, the class and type of clients and the methods used to distribute products and services.

The construction activities conducted by ZUE include the construction and comprehensive modernisation of city transport systems, the construction and comprehensive modernisation of railway lines, power engineering and power electronics services and civil structures.

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

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

The accounting policies applied to the segments are the same as the principles presented in the description of significant accounting policies. The Group settles sales and transfers between the segments based on current market prices like with transactions with third parties.

#### Operating segments' results for the three quarters of 2019:

	Construction	Sales	Design	Exclusions	Total
<b>Sales revenue</b>	<b>707,422</b>	<b>44,202</b>	<b>8,175</b>	<b>-11,541</b>	<b>748,258</b>
including:					
Revenue from external customers	706,898	35,436	2,390	3,534	748,258
Inter-segment revenues	524	8,766	5,785	-15,075	0
including:					
Revenue from construction contracts	692,457	0	8,175	-2,282	698,350
Revenue from the provision of services	12,048	1	0	-493	11,556
Revenue from the sale of goods, raw and other materials	2,917	44,201	0	-8,766	38,352
<b>Gross profit</b>	<b>19,834</b>	<b>1,898</b>	<b>1,136</b>	<b>307</b>	<b>23,175</b>
Financial income / expenses	83	-467	-90	19	-455
Interest received	180	134	0	-124	190
Interest paid	-736	-223	-32	0	-991
<b>Pre-tax profit</b>	<b>6,341</b>	<b>-85</b>	<b>82</b>	<b>391</b>	<b>6,729</b>
Corporate income tax	2,641	48	0	74	2,763
<b>Net profit</b>	<b>3,700</b>	<b>-133</b>	<b>82</b>	<b>317</b>	<b>3,966</b>
Depreciation and amortisation	9,652	8	134	-13	9,781
Property, plant and equipment	54,929	4	199	2,622	57,754
Non-current assets	183,374	433	1,104	-924	183,987
<b>Total assets</b>	<b>558,314</b>	<b>15,937</b>	<b>16,232</b>	<b>-3,130</b>	<b>587,353</b>
<b>Total liabilities</b>	<b>408,395</b>	<b>15,189</b>	<b>15,917</b>	<b>-2,841</b>	<b>436,660</b>

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

**Operating segments' results for the three quarters of 2018:**

	<b>Construction</b>	<b>Sales</b>	<b>Design</b>	<b>Exclusions</b>	<b>Total</b>
<b>Revenue</b>	<b>507,241</b>	<b>47,241</b>	<b>10,916</b>	<b>-9,543</b>	<b>555,855</b>
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
<b>Gross profit on sales</b>	<b>13,834</b>	<b>2,535</b>	<b>1,688</b>	<b>-551</b>	<b>17,506</b>
Financial income / expenses	1,172	-437	-101	14	648
Interest received	213	0	0	-2	211
Interest paid	-591	-184	-10	0	-785
<b>Pre-tax profit</b>	<b>1,766</b>	<b>708</b>	<b>234</b>	<b>-509</b>	<b>2,199</b>
Corporate income tax	514	-186	0	-97	231
<b>Net profit</b>	<b>1,252</b>	<b>894</b>	<b>234</b>	<b>-412</b>	<b>1,968</b>
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
<b>Total assets</b>	<b>523,288</b>	<b>20,256</b>	<b>16,406</b>	<b>-11,545</b>	<b>548,405</b>
<b>Total payables</b>	<b>311,673</b>	<b>19,661</b>	<b>15,958</b>	<b>-10,260</b>	<b>337,032</b>

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

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

##### 4.4.1. Construction contracts

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

	Period ended 30-09-2019	Period ended 30-09-2018
Revenue from long-term construction contracts	677,280	486,665
Costs of long-term construction contracts*)	669,810	471,974
<b>Gross profit (loss) on long-term contracts</b>	<b>7,470</b>	<b>14,691</b>
	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
<b>Assets (selected items)</b>	<b>193,037</b>	<b>142,968</b>
- Measurement of long-term construction contracts	165,348	114,910
- Advance payments transferred in connection with performed contracts	12,043	15,317
- Retentions on construction contracts retained by customers	15,646	12,741
<b>Liabilities (selected items)</b>	<b>201,021</b>	<b>201,236</b>
- Measurement of long-term construction contracts	11,418	7,047
- Provisions for contract costs	100,192	61,990
- Advance payments received in connection with performed contracts	31,628	75,007
- Retentions on construction contracts retained for suppliers	30,142	19,683
- Provisions for warranty claims	13,183	10,122
- Provisions for expected losses on contracts	14,458	27,387

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

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

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

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

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

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

##### 4.4.2. Retentions on construction contracts

	Balance at 30-09-2019	Balance at 31-12-2018
Retained by customers – to be repaid after 12 months	9,734	9,720
Retained by customers – to be repaid within 12 months	5,912	3,021
<b>Total retentions on construction contracts retained by customers</b>	<b>15,646</b>	<b>12,741</b>
Retained for suppliers – to be repaid after 12 months	13,511	11,371
Retained for suppliers – to be repaid within 12 months	16,631	8,312
<b>Total retentions on construction contracts retained for suppliers</b>	<b>30,142</b>	<b>19,683</b>

The construction contracts and work-for-hire contracts entered into by the Group provide for an obligation to

provide performance bonds and defects liability bonds in the form of deposits or bonds issued by banks or insurance companies. If the term of a bond provided by a bank is longer than 37 months, the bank establishes additional security in the form of cash deposit.

#### 4.4.3. Provisions

##### Change in provisions

Provisions	01-01-2019	Created	Used	Released	Reclassified	30-09-2019	Item
<b>Long-term provisions:</b>	<b>10,146</b>	<b>3,325</b>	<b>307</b>	<b>0</b>	<b>-757</b>	<b>12,407</b>	
Provisions for employee benefits	1,994	104	0	0	0	2,098	Liabilities under employee benefits (long-term)
Provisions for warranty claims	8,152	3,221	307	0	-757	10,309	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
<b>Short-term provisions:</b>	<b>44,187</b>	<b>15,240</b>	<b>11,814</b>	<b>14,439</b>	<b>757</b>	<b>33,931</b>	
Provisions for employee benefits	14,448	14,306	11,142	1,022	0	16,590	Liabilities under employee benefits (short-term)
Provisions for warranty claims	1,970	588	148	293	757	2,874	Short-term provisions
Provision for loss on contracts	27,387	119	0	13,048	0	14,458	Short-term provisions
Other provisions	382	227	524	76	0	9	Short-term provisions
<b>Total provisions:</b>	<b>54,333</b>	<b>18,565</b>	<b>12,121</b>	<b>14,439</b>	<b>0</b>	<b>46,338</b>	

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

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

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

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

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

##### Comparative information:

Provisions	01-01-2018	Created	Used	Released	Reclassified	31-12-2018	Item
<b>Long-term provisions:</b>	<b>7,644</b>	<b>3,841</b>	<b>308</b>	<b>222</b>	<b>-809</b>	<b>10,146</b>	
Provisions for employee benefits	1,888	231	1	4	-120	1,994	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,756	3,610	307	218	-689	8,152	Long-term provisions



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

#### 4.4.4. Advance payments

	Balance at 30-09-2019	Balance at 31-12-2018
Advance payments transferred in connection with performed contracts	12,043	15,317
Other advance payments	28	4
Allowances for advance payments	-46	-46
<b>Total advance payments due</b>	<b>12,025</b>	<b>15,275</b>

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

	Balance at 30-09-2019	Balance at 31-12-2018
Advance payments received in connection with performed contracts	31,628	75,007
Other advance payments	14	2
<b>Total advance payments received</b>	<b>31,642</b>	<b>75,009</b>

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

#### 4.4.5. Accruals

	Balance at 30-09-2019	Balance at 31-12-2018
Provisions for contract costs	100,192	61,990
Other accruals	478	438
<b>Total</b>	<b>100,670</b>	<b>62,428</b>

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

### 4.5. Trade and other receivables and payables

#### 4.5.1. Trade and other receivables

Balance at	Balance at
------------	------------

	<b>30-09-2019</b>	<b>31-12-2018</b>
Trade receivables	191,985	192,693
Allowances for trade receivables in connection with the increase in credit risk	-20,345	-17,654
Allowances for trade receivables – initial for expected credit losses	-119	-119
Receivables from the state budget other than corporate income tax	671	383
Other receivables	5,153	4,259
<b>Total trade and other receivables</b>	<b>177,345</b>	<b>179,562</b>

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

The allowances connected with the increase in credit risk of PLN 20,345 thousand include, in particular:

- Debit notes issued by the Group for the penalties, damages and substitute performance. The amount is for presentation purposes only because the notes were not the Group's revenue at the moment of issue;
- Receivables under court and enforcement proceedings; and
- Doubtful receivables.

#### Changes in loss allowances for receivables

The change in allowances for trade receivables influencing the profit or loss includes the release of allowances PLN 9 thousand and the creation of allowances of PLN 345 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by the Group for the penalties and damages that were not the Group's revenue at the moment of issue.

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

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Counterparty A	93,836	147,395
Counterparty B	33,477	
Counterparty C	23,764	

The concentration of credit risk is limited due to the fact that the creditability of the abovementioned counterparties assessed, *inter alia*, by analysing their financial standing, is high and the fact that they meet additional requirements concerning the settlement of EU funds. The Group has carried out the construction contracts for the Counterparty A, the Counterparty B and the Counterparty C for many years. The Counterparty A is co-owned by the State Treasury as a result of which their creditability is even higher. The Counterparty B and the Counterparty C are the big city centres. Accordingly, the Management Board of the Company believe there is no need to create additional provisions.

#### 4.5.2. Trade and other payables

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Trade payables	121,850	188,156
Liabilities to the state budget other than corporate income tax	28,252	30,959
Other payables	103	79
<b>Total trade and other payables</b>	<b>150,205</b>	<b>219,194</b>

#### 4.6. Debt and management of capital and liquidity

##### 4.6.1. Loans and bank credits

	Balance at 30-09-2019	Balance at 31-12-2018
<b>Long-term</b>	<b>0</b>	<b>0</b>
Bank credits	0	0
Loans received	0	0
<b>Short-term</b>	<b>29,866</b>	<b>7,907</b>
Bank credits	29,605	7,651
Loans received	261	256
<b>Total</b>	<b>29,866</b>	<b>7,907</b>

#### Summary of credit agreements

No.	Bank	Description	Principal/limit according to the agreement as at 30-09-2019	Amount of available credits as at 30-09- 2019	Use as at 30-09- 2019	Interest	Repayment date
1	mBank S.A.	Overdraft	10,000	2,419	7,581	O/N WIBOR + margin	July 2020
2	mBank S.A.	Master agreement including: sublimit for bonds Non-revolving working credit facility	50,000		12,098	3M WIBOR + margin	July 2020
			10,000		0		
			40,000	0	12,098		
3	BNP Paribas Bank Polska S.A. (i)	Multipurpose credit line agreement including: sublimit for bonds sublimit for working credit facilities	170,000		75,272	1M WIBOR + margin	October 2020
			170,000		75,272		
			20,000	20,000	0		
4	BNP Paribas Bank Polska S.A.	Multipurpose credit line	600	600	0	1M WIBOR + margin	December 2019
5	mBank S.A.	Overdraft	500	4	496	ON WIBOR + margin	May 2020
6	mBank S.A.	Working credit facility for contract prefinancing	1,800	370	1,430	1M WIBOR + margin	March 2020
7	mBank S.A.	Working credit facility	5,000	0	5,000	1M WIBOR + margin	August 2020
8	BNP Paribas Bank Polska	Revolving	4,000	1,000	3,000	3M	May 2020

S.A.	credit agreement	WIBOR + margin
<b>Total amount of available credits at the Group</b>		<b>24,393</b>
<b>Total credit debt at the Group</b>		<b>29,605</b>
<b>Total use for bonds at the Group</b>		<b>75,272</b>

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

Security and liabilities under credit agreements:

1. **Overdraft** – bill of exchange.
2. **Master agreement:**
  - a) Mortgage;
  - b) Borrower's statement on submission to enforcement.
3. **Multipurpose credit limit agreement:**
  - a) Bill of exchange;
  - b) Cash deposit for the bonds expiring after 37 months;
  - c) Security deposit of PLN 4,000 thousand;
  - d) Registered pledge on non-current assets owned by the borrower;
  - e) Assignment of rights under policy;
  - f) Borrower's statement on submission to enforcement.
4. **Multipurpose credit limit:**
  - a) Blank bill of exchange;
  - b) Borrower's statement on submission to enforcement.
5. **Overdraft:**
  - a) Blank bill of exchange;
  - b) ZUE's guarantees.
6. **Working credit facility for contract prefinancing:**
  - a) Blank bill of exchange;
  - b) ZUE's guarantees;
  - c) Assignment of claims.
7. **Working credit facility:**
  - a) ZUE's guarantees;
  - b) Registered pledge on inventories;
  - c) Blank bill of exchange;
  - d) Statements on submission to enforcement;
  - e) Assignment of rights under insurance policy.
8. **Revolving credit agreement:**
  - a) Bill of exchange;
  - b) Statements on submission to enforcement.

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

- mBank – Overdraft (no. 1) – Annex of 27 June 2019 whereby the credit was renewed for a further term.
- mBank – Master Agreement (no. 2) – Annex of 21 February 2019 whereby the Cooperation Agreement was renamed to the Master Agreement and the sublimit for working credit facilities was raised to PLN 40,000 thousand. On 22 February 2019, the working credit facility agreement was signed as part of the available sublimit under the Master Agreement. The credit was repaid on 22 October 2019; i.e. before the credit repayment date scheduled according to the Agreement as 30 October 2019.
- mBank – Overdraft (no. 5) – Annex of 3 June 2019 whereby the credit was renewed for a further term.
- mBank – Working credit facility for contract prefinancing (no. 6) – Annex of 24 June 2019 whereby the principal was reduced to PLN 1,800 thousand and the repayment date was extended until 20 March 2020.
- mBank – Working credit facility (no. 7) – Annex of 22 August 2019 whereby the credit was renewed for a further term.

The Group took measures to extend the multipurpose credit limit agreement (no. 3) between BNP Paribas Bank Polska and the Company for another year and to extend the multipurpose credit limit agreement (no. 4) and the revolving credit agreement (no. 8) signed by subsidiaries.

On 19 November 2019, the Company and Agencja Rozwoju Przemysłu S.A. with registered office in Warsaw entered into the loan agreement of up to PLN 20m. The amount would be used to finance day-to-day operations.

**Comparative information:**

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

- (i) Annex of 9 May 2018 whereby the limit was raised to PLN 10,000 thousand.
- (ii) New agreement of 26 April 2018.
- (iii) Annex of 5 June 2018 whereby the limit was raised to PLN 500 thousand.
- (iv) Annex of 15 November 2018 whereby the limit was raised to PLN 600 thousand.

#### 4.6.2. Lease liabilities

	Balance at 30-09-2019	Balance at 31-12-2018
Non-current lease liabilities	14,070	14,815
Current lease liabilities	11,809	13,001
<b>Total</b>	<b>25,879</b>	<b>27,816</b>

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

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

#### 4.6.3. Capital management

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

	Balance at 30-09-2019	Balance at 31-12-2018
Long- and short-term loans and bank credits	29,866	7,907
Long- and short-term lease liabilities	25,879	27,816
Long- and short-term other financial liabilities	176	386
<b>Total financial liabilities</b>	<b>55,921</b>	<b>36,109</b>
Cash and cash equivalents	5,460	81,723
<b>Net debt</b>	<b>50,461</b>	<b>-45,614</b>
Equity	150,693	146,748
<b>Net debt to equity ratio</b>	<b>33.49%</b>	<b>-31.08%</b>

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

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

#### 4.6.4. Cash and cash equivalents

	Balance at 30-09-2019	Balance at 31-12-2018
Cash on hand and at banks	5,460	81,723
Bank deposits up to three months	0	0
<b>Total</b>	<b>5,460</b>	<b>81,723</b>

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

The cash as at 30 September 2019 does not include the amount of PLN 2,115 thousand kept on escrow accounts attributable to consortium members. The Group believes that the cash cannot be defined as an asset and is not presented in the balance sheet at 30 September 2019. The cash kept on ZUE's escrow accounts as at 31 December 2018 was PLN 2,962 thousand.

#### Discussion of items of the statement of cash flows

The Group's cash flows from operating activities of PLN (-) 84,785 thousand were mainly influenced by changes in the measurement of long-term construction contracts, payables, advance payments, accruals, short-term provisions, retentions and inventories in connection with the performance of construction contracts.

The Group's cash flows from investing activities of PLN (-) 485 thousand were mainly influenced by the purchase of non-current assets financed by own resources and the repayment of granted loans.

The Group's cash flows from financing activities of PLN 9,013 thousand were mainly influenced by the greater use of external financing and the settlement thereof and the decrease in liabilities under leases.

	ZUE		Group	
	Period ended 30-09-2019	Period ended 30-09-2018	Period ended 30-09-2019	Period ended 30-09-2018
Cash flows from operating activities	-81,505	-82,887	-84,785	-84,054
Cash flows from investing activities	-827	-17,634	-485	-17,572
Cash flows from financing activities	7,247	6,114	9,013	6,597
<b>Total net cash flows</b>	<b>-75,085</b>	<b>-94,407</b>	<b>-76,257</b>	<b>-95,029</b>
Cash and cash equivalents at the beginning of the period	79,404	116,144	81,723	117,748
Cash and cash equivalents at the end of the period	4,313	21,759	5,460	22,741

#### 4.7. Other notes to the financial statements

##### 4.7.1. Property, plant and equipment

Gross value	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at 1 January 2019</b>	0	26,220	52,061	85,735	2,291	166,307	302	0	166,609
Opening balance adjustment	0	0	-19,437	-36,016	0	-55,453	0	0	-55,453
<b>Balance at 1 January 2019 after opening balance adjustment</b>	0	26,220	32,624	49,719	2,291	110,854	302	0	111,156
Additions	0	52	1,097	2,755	40	3,944	559	0	4,503
Reclassification – right of use*	0	0	3,887	3,813	0	7,700	0	0	7,700
Transfer to non-current assets	0	0	0	0	0	0	623	0	623
Sale/liquidation	0	0	612	599	50	1,261	0	0	1,261
<b>Balance at 30 September 2019</b>	0	26,272	36,996	55,688	2,281	121,237	238	0	121,475

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
<b>Balance at 1 January 2019</b>	0	8,716	23,084	28,227	1,882	61,909	0	0	61,909
Opening balance adjustment	0	0	-1,964	-1,946	0	-3,910	0	0	-3,910



<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>8 716</b>	<b>21,120</b>	<b>26,281</b>	<b>1,882</b>	<b>57,999</b>	<b>0</b>	<b>0</b>	<b>57,999</b>
Elimination on disposal of assets	0	0	597	488	50	1,135	0	0	1,135
Reclassification – right of use* - depreciation expense	0	0	599	343	0	942	0	0	942
Depreciation expense	0	659	1,914	3,268	74	5,915	0	0	5,915
<b>Balance at 30 September 2019</b>	<b>0</b>	<b>9,375</b>	<b>23,036</b>	<b>29,404</b>	<b>1,906</b>	<b>63,721</b>	<b>0</b>	<b>0</b>	<b>63,721</b>
<b>Carrying amount</b>									
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>17,504</b>	<b>28,977</b>	<b>57,508</b>	<b>409</b>	<b>104,398</b>	<b>302</b>	<b>0</b>	<b>104,700</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>17 504</b>	<b>11,504</b>	<b>23,438</b>	<b>409</b>	<b>52,855</b>	<b>302</b>	<b>0</b>	<b>53,157</b>
<b>Balance at 30 September 2019</b>	<b>0</b>	<b>16,897</b>	<b>13,960</b>	<b>26,284</b>	<b>375</b>	<b>57,516</b>	<b>238</b>	<b>0</b>	<b>57,754</b>

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

As at 30 September 2019, the net amount of liabilities incurred to purchase property, plant and equipment was PLN 679 thousand. As at 30 September 2019, the gross carrying amount of fully depreciated property, plant and equipment still used by the Group was PLN 17,099 thousand.

Opening balance adjustment results from the implementation of IFRS 16.

#### **Assets pledged as security**

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

**Comparative information:**

Property, plant and equipment		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Gross value</b>	<b>1 January 2018</b>	<b>0</b>	<b>26,162</b>	<b>46,839</b>	<b>67,387</b>	<b>2,271</b>	<b>142,659</b>	<b>3,202</b>	<b>3,705</b>	<b>149,566</b>
Additions		0	47	7,389	19,539	116	27,091	10,747	945	38,783
Presentation adjustment		0	11	0	-11	0	0	0	0	0
Transfer to non-current assets		0	0	0	0	0	0	13,647	4,650	18,297
Sale/liquidation		0	0	2,167	1,180	96	3,443	0	0	3,443
<b>Balance at</b>	<b>31 December 2018</b>	<b>0</b>	<b>26,220</b>	<b>52,061</b>	<b>85,735</b>	<b>2,291</b>	<b>166,307</b>	<b>302</b>	<b>0</b>	<b>166,609</b>
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
<b>Balance at</b>	<b>1 January 2018</b>	<b>0</b>	<b>7,768</b>	<b>21,513</b>	<b>23,408</b>	<b>1,854</b>	<b>54,543</b>	<b>0</b>	<b>0</b>	<b>54,543</b>
Elimination on disposal of assets		0	0	1,668	938	95	2,701	0	0	2,701
Depreciation expense		0	948	3,239	5,757	123	10,067	0	0	10,067
<b>Balance at</b>	<b>31 December 2018</b>	<b>0</b>	<b>8,716</b>	<b>23,084</b>	<b>28,227</b>	<b>1,882</b>	<b>61,909</b>	<b>0</b>	<b>0</b>	<b>61,909</b>
<b>Carrying amount</b>										
<b>Balance at</b>	<b>1 January 2018</b>	<b>0</b>	<b>18,394</b>	<b>25,326</b>	<b>43,979</b>	<b>417</b>	<b>88,116</b>	<b>3,202</b>	<b>3,705</b>	<b>95,023</b>
<b>Balance at</b>	<b>31 December 2018</b>	<b>0</b>	<b>17,504</b>	<b>28,977</b>	<b>57,508</b>	<b>409</b>	<b>104,398</b>	<b>302</b>	<b>0</b>	<b>104,700</b>

#### 4.7.2. Investment property

##### Investment property

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

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
<b>Balance at 1 January 2019</b>	0	1,656	2,050	0	0	0	3,706
Opening balance adjustment	0	0	0	0	0	0	0
<b>Balance at 1 January 2019 after opening balance adjustment</b>	0	1,656	2,050	0	0	0	3,706
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	65	219	0	0	0	284
<b>Balance at 30 September 2019</b>	0	1,721	2,269	0	0	0	3,990

**Carrying amount**

<b>Balance at 1 January 2019</b>	<b>126</b>	<b>2,595</b>	<b>2,544</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,265</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>126</b>	<b>3 587</b>	<b>2,544</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,257</b>
<b>Balance at 30 September 2019</b>	<b>126</b>	<b>3,522</b>	<b>2,325</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,973</b>

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

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

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

Opening balance adjustment results from the implementation of IFRS 16.

**Comparative information:**

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

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

### 4.7.3. Intangible assets

#### Structure of intangible assets

	Balance at 30-09-2019	Balance at 31-12-2018
<b>Acquired concessions, patents, licenses and similar assets, including:</b>	<b>444</b>	<b>224</b>
- Software	444	224
<b>Other intangible assets, including:</b>	<b>0</b>	<b>8,392</b>
- Leasehold	0	8,392
<b>Total</b>	<b>444</b>	<b>8,616</b>

#### Movements in intangible assets

	Leasehold land	Other intangible assets – software	Total
<b>Gross value</b>			
<b>Balance at 1 January 2019</b>	<b>9,341</b>	<b>4,566</b>	<b>13,907</b>
<b>Opening balance adjustment</b>	<b>-9,341</b>	<b>0</b>	<b>-9,341</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>4,566</b>	<b>4,566</b>
Additions	0	321	321
Sale/liquidation	0	57	57
Adjustment	0	-131	-131
<b>Balance at 30 September 2019</b>	<b>0</b>	<b>4,699</b>	<b>4,699</b>
<b>Amortisation and impairment</b>			
<b>Balance at 1 January 2019</b>	<b>949</b>	<b>4,342</b>	<b>5,291</b>
<b>Opening balance adjustment</b>	<b>-949</b>	<b>0</b>	<b>-949</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>4,342</b>	<b>4,342</b>
Amortisation expense	0	92	92
Sale/liquidation	0	56	56
Adjustment	0	-123	-123
<b>Balance at 30 September 2019</b>	<b>0</b>	<b>4,255</b>	<b>4,255</b>
<b>Carrying amount</b>			
<b>Balance at 1 January 2019</b>	<b>8,392</b>	<b>224</b>	<b>8,616</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>224</b>	<b>224</b>
<b>Balance at 30 September 2019</b>	<b>0</b>	<b>444</b>	<b>444</b>

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

Opening balance adjustment results from the implementation of IFRS 16.

**Comparative information:**

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

#### 4.7.4. Right-of-use assets

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total right-of-use assets	Right-of-use assets under construction	Prepaid right-of-use assets under construction	TOTAL
<b>Balance at 1 January 2019</b>	0	0	0	0	0	0	0	0	0	0
Opening balance adjustment	812	13,835	932	19,475	36,699	0	71,753	0	0	71,753
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>812</b>	<b>13,835</b>	<b>932</b>	<b>19,475</b>	<b>36,699</b>	<b>0</b>	<b>71,753</b>	<b>0</b>	<b>0</b>	<b>71,753</b>
Conclusion of new contracts	467	0	406	0	992	0	1,865	0	0	1,865
Changes resulting from the amendments to contracts	-17	0	0	0	-23	0	-40	0	0	-40
Reclassification – right of use*	0	0		-3,887	-3,813		-7,700	0	0	-7,700
Changes resulting from the shortening of contracts	0	0	-155	0	0	0	-155	0	0	-155
Adjustment	0	8	0	0	0	0	8	0	0	8
<b>Balance at 30 September 2019</b>	<b>1,262</b>	<b>13,843</b>	<b>1,183</b>	<b>15,588</b>	<b>33,855</b>	<b>0</b>	<b>65,731</b>	<b>0</b>	<b>0</b>	<b>65,731</b>

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at 1 January 2019</b>	0	0	0	0	0	0	0	0	0	0
Opening balance adjustment	0	948	0	1,964	1,947	0	4,859	0	0	4,859
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>948</b>	<b>0</b>	<b>1,964</b>	<b>1,947</b>	<b>0</b>	<b>4,859</b>	<b>0</b>	<b>0</b>	<b>4,859</b>
Depreciation expense	398	133	488	688	1,783	0	3,490	0	0	3,490
Reclassification – right of use* - depreciation expense	0	0	0	-599	-343	0	-942	0	0	-942



Elimination on the shortening of contract	0	0	43	0	0	0	43	0	0	43
<b>Balance at 30 September 2019</b>	<b>398</b>	<b>1,081</b>	<b>445</b>	<b>2,053</b>	<b>3,387</b>	<b>0</b>	<b>7,364</b>	<b>0</b>	<b>0</b>	<b>7,364</b>
<b>Carrying amount</b>										
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>812</b>	<b>12,887</b>	<b>932</b>	<b>17,511</b>	<b>34,752</b>	<b>0</b>	<b>66,894</b>	<b>0</b>	<b>0</b>	<b>66,894</b>
<b>Balance at 30 September 2019</b>	<b>864</b>	<b>12,762</b>	<b>738</b>	<b>13,535</b>	<b>30,468</b>	<b>0</b>	<b>58,367</b>	<b>0</b>	<b>0</b>	<b>58,367</b>

\*Lease repurchase.

Opening balance adjustment results from the implementation of IFRS 16.

#### 4.7.5. Goodwill

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

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

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

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

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

<b>At cost</b>	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Goodwill of PRK	31,172	31,172
Goodwill of BPK Poznań	1,474	1,474
Impairment losses (BPK Poznań)	-1,474	-1,474
<b>Balance at the end of the reporting period</b>	<b>31,172</b>	<b>31,172</b>

#### Annual goodwill impairment test

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

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

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

The total capital expenditures disclosed in the cash flow statement in the reporting period amounted to PLN 3,678 thousand.

At 30 September 2019, net liabilities incurred to purchase property, plant and equipment amounted to PLN 679 thousand.

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

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

- Complete overhauls of vehicles (mainly wagons) – PLN 2,582 thousand;
- Purchase of handcar – PLN 389 thousand;
- Purchase of cars – PLN 154 thousand; and
- Purchase of server – PLN 154 thousand.

In the three quarters of 2019, the Group sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 111 thousand. In the three quarters of 2018, the Group sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 581 thousand.

#### 4.7.7. Advanced loans

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Loans advanced to related parties	76	80
Loans advanced to other parties	288	3,080

Impairment losses	-364	-347
<b>Total</b>	<b>53</b>	<b>2,813</b>

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

#### 4.7.8. Inventories

	Balance at 30-09-2019	Balance at 31-12-2018
Goods, raw and other materials	33,734	47,987
Work-in-progress	2,355	534
Finished goods	199	199
<b>Total</b>	<b>36,288</b>	<b>48,720</b>

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

#### 4.7.9. Financial instruments

The following table sets out the carrying amounts of the Group's financial instruments broken down into particular classes and categories of assets and liabilities as at 30 September 2019.

##### Balance at 30 September 2019

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through:		Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
		Profit or loss	Other comprehensive income		
Retentions on construction contracts (before discount)	16,834	0	0	0	32,048
Trade receivables	191,985	0	0	0	0
Other financial liabilities	0	0	0	0	316
Advanced loans	0	0	0	0	0
Cash and cash equivalents	5,460	0	0	0	0
Loans and bank credits	0	0	0	0	29,866
Lease liabilities	0	0	0	0	25,879
Trade payables	0	0	0	0	121,850
<b>Total</b>	<b>214,279</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>209,959</b>

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

##### Balance at 31 December 2018

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through:		Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
		Profit or loss	Other comprehensive income		
Retentions on construction contracts (before discount)	14,100	0	0	0	21,177
Trade receivables	192,693	0	0	0	0
Other financial liabilities	0	0	0	0	386

Advanced loans	2,813	0	0	0	0
Cash and cash equivalents	81,723	0	0	0	0
Loans and bank credits	0	0	0	0	7,907
Lease liabilities	0	0	0	0	27,816
Trade payables	0	0	0	0	188,156
<b>Total</b>	<b>291,329</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>245,442</b>

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

#### 4.7.10. Transactions with related parties

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

	<b>Receivables</b>		<b>Payables</b>	
	<b>Balance at</b>		<b>Balance at</b>	
	<b>30-09-2019</b>	<b>31-12-2018</b>	<b>30-09-2019</b>	<b>31-12-2018</b>
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	53	0	0	0
<b>Total</b>	<b>53</b>	<b>0</b>	<b>0</b>	<b>0</b>

	<b>Revenue</b>		<b>Purchases</b>	
	<b>Period ended</b>		<b>Period ended</b>	
	<b>30-09-2019</b>	<b>30-09-2018</b>	<b>30-09-2019</b>	<b>30-09-2018</b>
RTI	3	3	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	48	0	0	0
<b>Total</b>	<b>51</b>	<b>3</b>	<b>0</b>	<b>0</b>

	<b>Advanced loans</b>		<b>Financial income (interest)</b>	
	<b>Balance at</b>		<b>Period ended</b>	
	<b>30-09-2019</b>	<b>31-12-2018</b>	<b>30-09-2019</b>	<b>30-09-2018</b>
RTI	0	21	0	0
RTI Germany	76	59	0	1
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>76</b>	<b>80</b>	<b>0</b>	<b>1</b>

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

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

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

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

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

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

## Remuneration of key management personnel

	Period ended 30-09-2019	Period ended 30-09-2018
Management Board	3,133	2,992
Supervisory Board	236	347
<b>Total</b>	<b>3,369</b>	<b>3,339</b>

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

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

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

#### Major pending court proceedings concerning liabilities:

Court case concerning the following project: "Construction of the tram depot in Poznań" – conclusion of the case.

On 7 February 2019, the Company received the suit for payment of 7 January 2019 filed with the District Court of Poznań by Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu sp. z o.o. (MPK, the "Contracting Authority," the "Plaintiff") against ZUE S.A. and Elektrobudowa S.A. of Katowice. In their suit MPK demanded that ZUE and Elektrobudowa pay on a joint and several basis the total amount of approx. PLN 20.2m as contractual penalties plus statutory default interest and the costs of proceedings.

The suit was based by the Plaintiff on the contract of 13 July 2011 between MPK and the Consortium of ZUE and Elektrobudowa for the construction of the FRANOWO tram depot in Poznań (the "Contract"). The Company informed about the conclusion of the Contract in the current report 39/2011. The works under the Contract were performed and completed by the Consortium in June 2015.

The Court requested the Parties to mediate and all the Parties approved of the mediation.

As a result of the mediation, the Company and Elektrobudowa entered into the settlement agreement with MPK whereby they were obliged to pay, on a joint and several basis, PLN 2.2m out of which PLN 1m was attributable to ZUE.

As a precaution, the Company created a financial provision relating to the said litigation. The Company informed thereof in the current report 7/2017 of 6 February 2017.

The said settlement agreement was submitted to the Court for approval. The settlement agreement was approved of on the basis of the judgment delivered on 27 August 2019 by the District Court in Poznań. The proceedings were discontinued by the Court and the judgment became final.

#### Major pending court proceedings concerning claims:

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

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

The Defendant questioned the claims made by the Petitioner both in terms of their amount and legitimacy and filed a motion to dismiss the action. The Defendant filed a claim that the contractual fee charged by the Petitioners was too high in case the said motion for the dismissal was rejected. On 11 December 2017, the District Court of Warsaw delivered the judgment whereby it ordered that PKP PLK S.A. pay ZUE S.A. PLN 1,852,194.33 plus statutory interest from 18 August 2012 to the date of payment and dismissed the remaining claims. ZUE S.A. appealed against the judgment and demanded that all claims be considered. The Defendant also appealed against the judgment and demanded that all claims of the Petitioner be dismissed. On 6 June 2019, the Warsaw Court of Appeals considered the Defendant's appeal and dismissed all the claims. The Petitioner considers revocation.

In addition, on 29 September 2016, the Petitioner (PORR Polska Infrastruktura; 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. POIŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

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

On 30 December 2016, the consortium of:

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

sued PKP Polskie Linie Kolejowe S.A. of Warsaw (the "Contracting Authority"). The lawsuit covered the claims relating to the performance of the following contract: "Design services and completion of construction works on the Cracow – Medyka – state border railway line, the 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") was PLN 39.3m and included:

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

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

On 11 March 2019, the Court delivered the partial judgment whereby it ordered that PKP Polskie Linie Kolejowe S.A. pay ZUE S.A. PLN 347,126.79 plus statutory default interest from 21 December 2016 to the date of payment and dismissed ZUE's claim concerning the payment of PLN 283,213.65 plus statutory interest from 21 December 2016.

The Parties appealed against this judgment. The Petitioner appealed against the dismissal of the claim of PLN 283,213.65 plus statutory interest and the Defendant appealed against the order to pay PLN 347,126.79 plus statutory interest.

#### 4.7.12. Tax settlements

Tax settlements and other areas of activity may be inspected by the administrative authorities authorised to impose harsh fines and penalties. The applicable laws are unclear and inconsistent because there are no references to established regulations in Poland. Common differences in opinions on legal interpretation of tax regulations both amongst state authorities and between state authorities and enterprises give rise to uncertainty

and conflicts. Accordingly, the tax risk in Poland is much higher than that in the countries with more mature tax systems.

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

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

Customs and tax inspection was carried out at ZUE in the reporting period in connection with the tax on income earned in 2014. Pursuant to Art. 82.3 of the Polish Act on National Tax Administration, the Company adjusted the previously submitted tax return and paid the tax of PLN 234 thousand plus interest. The adjustment concerned the acquisition of shares in exchange for claims. The inspection was completed.

#### 4.7.13. Contingent assets and contingent liabilities

##### Contingent assets

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Bonds	71,795	74,700
Guarantees	57	55
Bills of exchange	2,395	2,140
Pledge	300	0
<b>Total</b>	<b>74,547</b>	<b>76,895</b>

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

##### Contingent liabilities

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Bonds	503,610	597,356
Guarantees	24,651	24,951
Bills of exchange	364,909	364,811
Mortgages	55,159	54,259
Pledges	22,035	23,927
<b>Total</b>	<b>970,364</b>	<b>1,065,304</b>

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

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

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

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

Registered pledges were established in connection with annexes to the agreements between ZUE and BNP PARIBAS and PEKAO whereby limits had been raised and the agreement with BGK. A pledge established to secure the bond limit with BGK was removed on 31 October 2019. The pledged assets include wagons, pile driver and maintenance train.

In addition, a registered pledge was established in connection with the credit agreement with mBank entered into by a subsidiary. The pledge is on inventories.



On 1 October 2019, the Company and ZK "LEV INS" AD of Sofia (the Counterparty) concluded the agreement whereby the performance and defects liability bond in the total amount of PLN 31.6m was issued by the Counterparty.

#### 4.7.14. Liabilities incurred to purchase property, plant and equipment

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

#### 4.7.15. Discontinued operation

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

### 4.8. Other notes to the financial statements

#### 4.8.1. Use of the International Financial Reporting Standards

##### Statement of compliance

The quarterly condensed consolidated financial statements have been drawn up in accordance with IAS 34 as at 30 September 2019 as endorsed by the European Union (EU).

The quarterly consolidated financial statements for the nine months ended 30 September 2019 have been prepared according to the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent.

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

The following amendments to the existing standards published by the International Accounting Standards Board and approved for use in the European Union come into force in 2019:

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments following from the review of IFRS 2015-2017** (effective for annual periods beginning on or after 1 January 2019);
- **IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

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

##### Standards and interpretations adopted by the IASB but not yet approved by the EU

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"** (the effective date has been deferred by the IASB indefinitely);

- **Amendments to IAS 1 and IAS 8: “Definition of Material”** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).
- **Amendments to IFRS 9, IAS 39 and IFRS 7 - “Interest Rate Benchmark Reform”** (effective for annual periods beginning on or after 1 January 2020).

#### 4.8.2. Important accounting principles

##### 4.8.2.1. Going concern

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

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

The following facts should be taken into account when analysing the Group’s financial situation: in the nine months ended 30 September 2019, the Group recognised the sales revenue of PLN 748m (a year-on-year increase by 35%) and the gross profit of PLN 23m. As at 30 September 2019, the Group presented the current assets of PLN 403m, including the cash of approx. PLN 5.5m. At the date of preparation of this report, the Group had the backlog worth approx. PLN 2,022m. The Group is in the process of obtaining new contracts.

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

##### 4.8.2.2. Preparation basis

The Group has prepared these 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.

##### 4.8.2.3. Comparability of financial information

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

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

- “Non-current lease liabilities;” and
- “Current lease liabilities.”

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

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

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

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

	Restated	Approved	
	Balance at	Balance at	Effect of
	31-12-2018	31-12-2018	changes

#### ASSETS

<b>Non-current assets</b>			
<b>Total non-current assets</b>	<b>182,498</b>	<b>182,498</b>	<b>0</b>
<b>Current assets</b>			
Trade and other receivables	179,562	194,837	-15,275
Advance payments	15,275	0	15,275
<b>Total current assets</b>	<b>447,064</b>	<b>447,064</b>	<b>0</b>
<b>Total assets</b>	<b>629,562</b>	<b>629,562</b>	<b>0</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Total equity attributable to shareholders of the parent</b>	<b>146,622</b>	<b>146,622</b>	<b>0</b>
<b>Total equity</b>	<b>146,748</b>	<b>146,748</b>	<b>0</b>
<b>Non-current liabilities</b>			
Long-term loans and bank credits and other financing sources	0	14,815	-14,815
Non-current lease liabilities	14,815	0	14,815
<b>Total non-current liabilities</b>	<b>36,402</b>	<b>36,402</b>	<b>0</b>
<b>Current liabilities</b>			
Trade and other payables	219,194	356,631	-137,437
Accruals	62,428	0	62,428
Advance payments	75,009	0	75,009
Short-term loans and bank credits and other financing sources	0	20,908	-20,908
Short-term loans and bank credits	7,907	0	7,907
Current lease liabilities	13,001	0	13,001
<b>Total current liabilities</b>	<b>446,412</b>	<b>446,412</b>	<b>0</b>
<b>Total liabilities</b>	<b>482,814</b>	<b>482,814</b>	<b>0</b>
<b>Total equity and liabilities</b>	<b>629,562</b>	<b>629,562</b>	<b>0</b>

#### 4.8.2.4. Applied accounting principles

Except for the following changes, these quarterly consolidated financial statements for the nine months ended 30 September 2019 have been prepared according to the same accounting principles and measurement methods as those used in the last annual financial statements of the Group as at 31 December 2018. The financial statements for the financial year ended 31 December 2018 contain a detailed description of the accounting principles applied by the Group.

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

#### 4.8.2.5. Changes to accounting principles and financial statements preparation

##### Implementation of IFRS 16

##### Application of IFRS 16 for the first time

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

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

##### Impact of IFRS 16 on the Group's financial statements

Implementing IFRS 16 with a modified retrospective approach.

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

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

### Practical solutions used by the Group

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

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

### Exemptions offered by practical solutions:

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

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

### Impact on the Group's accounting

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

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

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

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

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

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

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

Leasehold land in investment property

992

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

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

Contracts previously recognised as finance lease

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

Presentation at 1 January 2019:

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

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

Right-of-use assets – reclassified from intangible assets

Leasehold land	8,392
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## Impact of the implementation of IFRS 16 on the financial statements

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

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

	According to	Approved	Effect of changes
	IFRS 16		
	Balance at	Balance at	
	2019-01-01	2018-12-31	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	53,157	104,700	-51,543
Investment property	6,257	5,265	992
Intangible assets	224	8,616	-8,392
Right-of-use assets	66,892	0	66,894
<b>Total non-current assets</b>	<b>190,448</b>	<b>182,498</b>	<b>7,951</b>
<b>Total current assets</b>	<b>447,064</b>	<b>447,064</b>	<b>0</b>
<b>Total assets</b>	<b>637,513</b>	<b>629,562</b>	<b>7,951</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	146,748	146,748	0
<b>Non-current liabilities</b>			
Long-term loans and bank credits	0	14,815	-14,815
Long-term lease liabilities	21,280	0	21,280
<b>Total non-current liabilities</b>	<b>42,867</b>	<b>36,402</b>	<b>6,465</b>
Short-term loans and bank credits	7,907	20,908	-13,001
Short-term lease liabilities	14,486	0	14,487
<b>Total current liabilities</b>	<b>447,897</b>	<b>446,412</b>	<b>1,485</b>
<b>Total liabilities</b>	<b>490,765</b>	<b>482,814</b>	<b>7,951</b>
<b>Total equity and liabilities</b>	<b>637,513</b>	<b>629,562</b>	<b>7,951</b>

## Hedge accounting

No hedge accounting is applied by the Group.

### 4.8.3. Sources of estimation uncertainty

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

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

The estimates relate, *inter alia*, to:

Impairment of goodwill (note no. 4.7.5.)

Useful economic lives of non-current assets

Loss allowances for receivables (note no. 4.5.1.)

Provisions (note no. 4.4.3.)

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

Deferred income tax (note no. 4.3.7.)

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

Uncertainty over tax settlements (note no. 4.7.12.)

The following revisions to estimates occurred in the reporting period:

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

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



## 5. Approval of the condensed consolidated financial statements

These condensed consolidated financial statements for the nine months ended 30 September 2019 were approved for publication by the Management Board of ZUE on 19 November 2019.

## 6. Signatures

**The financial statements have been prepared by:**

Ewa Bosak – Chief Accountant

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**Signatures of the management personnel:**

Wiesław Nowak – Management Board President

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Anna Mroczek – Management Board Vice-President

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Jerzy Czeremuga – Management Board Vice-President

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Maciej Nowak – Management Board Vice-President

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Marcin Wiśniewski – Management Board Vice-President

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Cracow, 19 November 2019



**ZUE S.A.**

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**CONDENSED SEPARATE FINANCIAL STATEMENTS  
FOR 9 MONTHS ENDED 30 SEPTEMBER 2019**

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**Cracow, 19 November 2019**

## V. 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
		30-09-2019	30-09-2019	30-09-2018	30-09-2018
Sales revenue	2.1.1.	707,422	251,682	507,241	217,444
Cost of sales	2.1.2.	687,588	243,202	493,407	213,479
<b>Gross profit (loss) on sales</b>		<b>19,834</b>	<b>8,480</b>	<b>13,834</b>	<b>3,965</b>
General and administrative expenses	2.1.2.	13,315	4,759	13,187	4,532
Other operating income	2.1.3.	214	60	823	34
Other operating expenses	2.1.4.	475	232	876	37
<b>Operating profit (loss)</b>		<b>6,258</b>	<b>3,549</b>	<b>594</b>	<b>-570</b>
Financial income	2.1.5.	1,314	244	1,846	970
Financial expenses	2.1.6.	1,231	494	674	243
<b>Pre-tax profit (loss)</b>		<b>6,341</b>	<b>3,299</b>	<b>1,766</b>	<b>157</b>
Corporate income tax	2.1.7.	2,641	1,268	514	141
<b>Net profit (loss) from continuing operations</b>		<b>3,700</b>	<b>2,031</b>	<b>1,252</b>	<b>16</b>
<b>Net profit (loss)</b>		<b>3,700</b>	<b>2,031</b>	<b>1,252</b>	<b>16</b>
<b>Other net comprehensive income</b>					
<b>Items that will not be reclassified subsequently to profit or loss:</b>		<b>-23</b>	<b>0</b>	<b>-3</b>	<b>0</b>
Actuarial gains (losses) relating to specific benefit schemes		-23	0	-3	0
<b>Other total net comprehensive income</b>		<b>-23</b>	<b>0</b>	<b>-3</b>	<b>0</b>
<b>Total comprehensive income</b>		<b>3,677</b>	<b>2,031</b>	<b>1,249</b>	<b>16</b>
Number of shares		23,030,083	23,030,083	23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)		0.16	0.09	0.05	0.00
Total comprehensive income per share (PLN)		0.16	0.09	0.05	0.00

## Separate statement of financial position

	Note no.	Balance at 30-09-2019	Restated Balance at 31-12-2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2.5.1.	54,929	101,815
Investment property	2.5.2.	9,617	8,642
Intangible assets	2.5.3.	403	8,115
Right-of-use assets	2.5.4.	57,315	0
Goodwill	2.5.5.	31,172	31,172
Investments in subordinates		221	221
Retentions on construction contracts	2.2.2.	9,506	9,463
Deferred tax assets	2.1.7.	20,083	22,485
Advanced loans	2.5.7.	128	0
<b>Total non-current assets</b>		<b>183,374</b>	<b>181,913</b>
<b>Current assets</b>			
Inventories	2.5.8.	28,033	37,311
Trade and other receivables	2.3.1.	171,196	171,503
Measurement of long-term construction contracts	2.2.1.	152,790	103,400
Retentions on construction contracts	2.2.2.	5,796	2,938
Advance payments	2.2.4.	12,025	16,581
Current tax assets	2.1.7.	0	0
Advanced loans	2.5.7.	107	2,804
Other assets		680	764
Cash and cash equivalents	2.4.4.	4,313	79,404
<b>Total current assets</b>		<b>374,940</b>	<b>414,705</b>
<b>Total assets</b>		<b>558,314</b>	<b>596,618</b>

	Note no.	Balance at 30-09-2019	Restated Balance at 31-12-2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		5,758	5,758
Share premium account		93,837	93,837
Treasury shares		-2,690	-2,690
Retained earnings		53,014	49,337
<b>Total equity</b>		<b>149,919</b>	<b>146,242</b>
<b>Non-current liabilities</b>			
Non-current lease liabilities	2.4.2.	13,986	14,781
Retentions on construction contracts	2.2.2.	13,159	10,721
Liabilities under employee benefits		1,106	1,036
Long-term provisions	2.2.3.	9,945	7,872
Other liabilities		0	70
<b>Total non-current liabilities</b>		<b>38,196</b>	<b>34,480</b>
<b>Current liabilities</b>			
Trade and other payables	2.3.2.	142,930	205,856
Accruals	2.2.5.	94,158	55,020
Measurement of long-term construction contracts	2.2.1.	11,359	6,980
Retentions on construction contracts	2.2.2.	16,005	8,099
Advance payments	2.2.4.	31,628	75,007
Short-term loans and bank credits	2.4.1.	19,679	0
Current lease liabilities	2.4.2.	11,719	12,963
Other financial liabilities		36	36
Liabilities under employee benefits		25,131	22,103
Current tax liabilities	2.1.7.	0	0
Short-term provisions	2.2.3.	17,554	29,832
<b>Total current liabilities</b>		<b>370,199</b>	<b>415,896</b>
<b>Total liabilities</b>		<b>408,395</b>	<b>450,376</b>
<b>Total equity and liabilities</b>		<b>558,314</b>	<b>596,618</b>

## Separate statement of changes in equity

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
<b>Balance at</b>	<b>1 January 2019</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>49,337</b>	<b>146,242</b>
Payment of dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Buy-back of shares		0	0	0	0	0
Profit (loss)		0	0	0	3,700	3,700
Other net comprehensive income		0	0	0	-23	-23
<b>Balance at</b>	<b>30 September 2019</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>53,014</b>	<b>149,919</b>
<b>Balance at</b>	<b>1 January 2018</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>113,461</b>	<b>210,366</b>
Payment of dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Buy-back of shares		0	0	0	0	0
Profit (loss)		0	0	0	1,252	1,252
Other net comprehensive income		0	0	0	-3	-3
<b>Balance at</b>	<b>30 September 2018</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>114,710</b>	<b>211,615</b>
<b>Balance at</b>	<b>1 January 2018</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>113,461</b>	<b>210,366</b>
Payment of dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Buy-back of shares		0	0	0	0	0
Profit (loss)		0	0	0	-64,049	-64,049
Other net comprehensive income		0	0	0	-75	-75
<b>Balance at</b>	<b>31 December 2018</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>49,337</b>	<b>146,242</b>

## Separate statement of cash flows

	9 months ended 30-09-2019	9 months ended 30-09-2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit / (loss) before tax</b>	<b>6,341</b>	<b>1,766</b>
<b>Adjustments for:</b>		
Depreciation and amortisation	9,652	7,931
Foreign exchange gains / (losses)	6	-37
Interest and share in profit (dividends)	860	381
(Gain) / loss on disposal of investments	-92	7
<b>Operating profit (loss) before changes in working capital</b>	<b>16,767</b>	<b>10,048</b>
Change in receivables, measurements of contracts, retentions on construction contracts and advance payments	-47,429	-113,439
Change in inventories	9,279	-18,001
Change in provisions and liabilities under employee benefits	-7,135	4,968
Change in payables, measurement of contracts and retentions on construction contracts, advance payments and accruals, excluding loans and bank credits and lease liabilities	-52,837	33,316
Change in prepayments	84	221
Income tax paid / tax refund	-234	0
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>-81,505</b>	<b>-82,887</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of property, plant and equipment and intangible assets	193	885
Purchase of property, plant and equipment and intangible assets	-3,633	-15,553
Sale / (purchase) of financial assets in other entities	0	-11
Sale / (purchase) of financial assets in related parties	-35	-58
Advanced loans	-317	-3,210
Repayment of advanced loans	2,785	100
Interest received	180	213
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>-827</b>	<b>-17 634</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loans and bank credits received	47,581	17,319
Repayment of loans and bank credits	-27,902	0
Decrease in lease liabilities	-11,696	-10,614
Lease interest paid	-710	-591
Other interest paid	-26	0
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>7,247</b>	<b>6,114</b>
<b>TOTAL NET CASH FLOWS</b>	<b>-75,085</b>	<b>-94,407</b>
Net foreign exchange gains / (losses)	-6	22
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>79,404</b>	<b>116,144</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:</b>	<b>4,313</b>	<b>21,759</b>
- of limited availability	4	1

## Notes to the condensed separate financial statements of ZUE

### 1. General information

#### 1.1. Information about the Company

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

The composition of the Company's Management Board has not changed during the reporting period or until the date of preparation of these financial statements.

Composition of the Company's Management and Supervisory Boards at the date of approval of these financial statements:

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

#### Supervisory Board:

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

#### Audit Committee:

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

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



## 1.2. Activities of the Company

ZUE is one of major players in the urban and railway transport infrastructure sector.

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

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

In 2019, the Company continues to provide rail and urban infrastructure construction services.

Construction activities have been diversified to include civil structures so that the Company can deliver reinforced concrete projects, such as viaducts, bridges, passages, resistance walls or noise barriers, based on its skills and resources.

## 1.3. Functional and reporting currency

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

## 2. Financial information

### 2.1. Notes to the statement of comprehensive income

#### 2.1.1. Revenue

	<b>Period ended 30-09-2019</b>	<b>Period ended 30-09-2018</b>
Revenue from construction contracts	692,457	496,382
Revenue from the rendering of services	12,048	9,245
Revenue from the sale of goods, raw and other materials	2,917	1,614
<b>Total</b>	<b>707,422</b>	<b>507,241</b>

The Company's sales revenue in the period 1 January – 30 September 2019 amounted to PLN 707,422 thousand and increased by 39% over the sales revenue reported in the analogous period of 2018.

In the reporting period, the Company operated in the territory of Poland.

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

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

#### **Concentration of revenue exceeding 10% of total sales revenue**

	Period ended	
	30-09-2019	30-09-2018
Counterparty A	398,226	303,541
Counterparty B	77,959	
Counterparty C	74,652	

### 2.1.2. Operating expenses

	Period ended 30-09-2019	Period ended 30-09-2018
Change in products	-1,822	-1,087
Depreciation and amortization	9,652	7,931
Consumption of materials and energy, including:	219,527	244,577
- consumption of materials	213,996	239,323
- consumption of energy	5,531	5,254
Contracted services	373,600	184,064
Costs of employee benefits	78,942	61,500
Taxes and charges	992	1,176
Other expenses	17,812	7,591
Value of goods and materials sold	2,200	842
<b>Total</b>	<b>700,903</b>	<b>506,594</b>

	Period ended 30-09-2019	Period ended 30-09-2018
Cost of sales	687,588	493,407
General and administrative expenses	13,315	13,187
<b>Total</b>	<b>700,903</b>	<b>506,594</b>

The Company's general and administrative expenses in the period 1 January – 30 September 2019 amounted to PLN 13,315 thousand and increased by 1% when compared with the Company's general and administrative expenses reported in the analogous period of 2018.

### Depreciation and amortisation

	Period ended 30-09-2019	Period ended 30-09-2018
Depreciation of property, plant and equipment	6,705	7,218
Depreciation of right-of-use assets	2,485	0
Amortisation of intangible assets	78	365
Depreciation of investments in real property	384	348
<b>Total</b>	<b>9,652</b>	<b>7,931</b>

### 2.1.3. Other operating income

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Gain on disposal of assets:</b>	<b>92</b>	<b>135</b>
Gain on disposal of non-current assets	92	135
<b>Other operating income:</b>	<b>122</b>	<b>688</b>
Damages and penalties	20	0
Release of allowances for receivables	7	37
Refund of the costs of court proceedings	32	580

Release of write-downs of inventories	25	30
Other	38	41
<b>Total</b>	<b>214</b>	<b>823</b>

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

#### 2.1.4. Other operating expenses

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Loss on disposal of assets:</b>	<b>0</b>	<b>0</b>
Loss on disposal of non-current assets	0	0
<b>Other operating expenses:</b>	<b>475</b>	<b>876</b>
Donations	2	18
Damages and penalties	0	455
Allowances for receivables	334	163
Costs of litigations	137	228
Other	2	12
<b>Total</b>	<b>475</b>	<b>876</b>

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

#### 2.1.5. Financial income

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Interest income</b>	<b>198</b>	<b>525</b>
Interest on bank deposits	138	379
Interest on loan	40	73
Interest on receivables	20	73
<b>Other financial income</b>	<b>1,116</b>	<b>1,321</b>
Foreign exchange gains	0	1
Discount of long-term items	939	1,158
Financial guarantees	177	162
<b>Total</b>	<b>1,314</b>	<b>1,846</b>

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

#### 2.1.6. Financial expenses

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Interest expenses</b>	<b>1,073</b>	<b>599</b>
Interest on bank credits	26	0
Interest on leases	877	591
Interest on trade and other payables	170	8
<b>Other financial expenses</b>	<b>158</b>	<b>75</b>
Foreign exchange losses	65	0
Write-down of investments in related parties	35	58
Other	58	17
<b>Total</b>	<b>1,231</b>	<b>674</b>

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

In 2019, Interest on leases includes the interest of PLN 310 thousand on recognised leases in accordance with the implementation of IFRS 16.

### 2.1.7. Corporate income tax

#### Corporate income tax recognised in the statement of comprehensive income

	Period ended 30-09-2019	Period ended 30-09-2018
Current income tax	234	0
Deferred tax	2,407	514
<b>Total tax expense/income</b>	<b>2,641</b>	<b>514</b>

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

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

#### Income tax according to effective interest rate

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Gross profit (loss)</b>	<b>6,341</b>	<b>1,766</b>
Income tax at the applicable rate of 19%	1,205	336
<b>Effect of tax recognition of:</b>	<b>-1,205</b>	<b>-3,777</b>
- Use of tax losses brought forward	1,282	0
- Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	8,724	16,542
- Revenue not classified as revenue under tax regulations and taxable revenue that is not balance sheet revenue	8,647	20,319
Revaluation of deferred tax assets (current year loss)	0	3,441
Deferred tax	2,407	514
Income tax adjustments	234	0
Income tax paid / tax refund on income earned abroad	0	0
<b>Income tax according to effective tax rate</b>	<b>2,641</b>	<b>514</b>
Effective tax rate	42%	29%

#### Current tax assets and liabilities

	Balance at 30-09-2019	Balance at 31-12-2018
<b>Current tax assets</b>		
Tax refundable	0	0
<b>Current tax liabilities</b>		
Tax payable	0	0

## Deferred tax

	Period ended 30-09-2019	Period ended 30-09-2018
<b>Deferred tax balance at the beginning of the period</b>	<b>22,485</b>	<b>7,803</b>
<b>Temporary differences relating to deferred tax assets:</b>	<b>48,426</b>	<b>39,631</b>
Provisions for expenses and accruals	26,179	18,213
Discount of receivables	216	328
Operating lease liabilities	2,628	1,115
Write-downs	1,186	1,176
Bonds and insurances accounted for over time	1,523	1,721
Tax work in progress	14,063	16,663
Measurement of long-term contracts	2,158	12
Other	473	403
<b>Temporary differences relating to deferred tax liabilities:</b>	<b>42,395</b>	<b>43,435</b>
Measurement of long-term contracts	29,030	32,489
Difference between the carrying and tax amount of property, plant and equipment and intangible assets	12,725	10,381
Discount of payables	635	546
Other	5	19
<b>Unused tax losses and other tax credits carried forward:</b>	<b>14,052</b>	<b>11,094</b>
Tax losses	14,052	11,094
<b>Total temporary differences relating to deferred tax assets:</b>	<b>62,478</b>	<b>50,725</b>
<b>Total temporary differences relating to deferred tax liabilities:</b>	<b>42,395</b>	<b>43,435</b>
<b>Deferred tax balance at the end of the period</b>	<b>20,083</b>	<b>7,290</b>
<b>Change in deferred tax, including:</b>	<b>-2,402</b>	<b>-513</b>
- recognised in income	-2,407	-514
- recognised in equity	5	1

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

### 2.1.8. Operating segments

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

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

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

#### 2.2.1. Construction contracts

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

	Period ended 30-09-2019	Period ended 30-09-2018
Revenue from long-term construction contracts	671,515	479,496
Costs of long-term construction contracts*)	665,762	466,335

**Gross profit (loss) on long-term contracts** **5,753** **13,161**

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
<b>Assets (selected items)</b>	<b>180,135</b>	<b>132,424</b>
- Measurement of long-term construction contracts	152,790	103,400
- Advance payments transferred in connection with performed contracts	12,043	16,623
- Retentions on construction contracts retained by customers	15,302	12,401
<b>Liabilities (selected items)</b>	<b>193,546</b>	<b>193,320</b>
- Measurement of long-term construction contracts	11,359	6,980
- Provisions for contract costs	93,896	54,809
- Advance payments received in connection with performed contracts	31,628	75,007
- Retentions on construction contracts retained for suppliers	29,164	18,820
- Provisions for warranty claims	12,811	9,816
- Provisions for expected losses on contracts	14,688	27,888

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

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

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

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

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

### 2.2.2. Retentions on construction contracts

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Retained by customers – to be repaid after 12 months	9,506	9,463
Retained by customers – to be repaid within 12 months	5,796	2,938
<b>Total retentions on construction contracts retained by customers</b>	<b>15,302</b>	<b>12,401</b>
Retained for suppliers – to be repaid after 12 months	13,159	10,721
Retained for suppliers – to be repaid within 12 months	16,005	8,099
<b>Total retentions on construction contracts retained for suppliers</b>	<b>29,164</b>	<b>18,820</b>

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

### 2.2.3. Provisions

#### Change in provisions

Provisions	01-01-2019	Created	Used	Released	Reclassified	30-09-2019	Item
<b>Long-term provisions:</b>	<b>8,908</b>	<b>3,207</b>	<b>307</b>	<b>0</b>	<b>-757</b>	<b>11,051</b>	
Provisions for employee benefits	1,036	70	0	0	0	1,106	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,872	3,137	307	0	-757	9,945	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
<b>Short-term provisions:</b>	<b>43,504</b>	<b>13,933</b>	<b>10,592</b>	<b>14,512</b>	<b>757</b>	<b>33,090</b>	
Provisions for employee benefits	13,672	13,226	10,444	918	0	15,536	Liabilities under employee benefits
Provisions for warranty claims	1,944	588	148	275	757	2,866	Short-term provisions
Provision for loss on contracts	27,888	119	0	13,319	0	14,688	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
<b>Total provisions:</b>	<b>52,412</b>	<b>17,140</b>	<b>10,899</b>	<b>14,512</b>	<b>0</b>	<b>44,141</b>	

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

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

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

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

#### Comparative information:

Provisions	01-01-2018	Created	Used	Released	Reclassified	31-12-2018	Item
<b>Long-term provisions:</b>	<b>6,527</b>	<b>3,580</b>	<b>308</b>	<b>217</b>	<b>-674</b>	<b>8,908</b>	
Provisions for employee benefits	856	181	1	0	0	1,036	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,671	3,399	307	217	-674	7,872	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
<b>Short-term provisions:</b>	<b>13,117</b>	<b>44,097</b>	<b>12,245</b>	<b>2,139</b>	<b>674</b>	<b>43,504</b>	
Provisions for employee benefits	10,119	15,379	11,546	280	0	13,672	Liabilities under employee

							benefits (short-term)
Provisions for warranty claims	2,581	10	699	622	674	1,944	Short-term provisions
Provision for loss on contracts	417	28,708	0	1,237	0	27,888	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
<b>Total provisions:</b>	<b>19,644</b>	<b>47,677</b>	<b>12,553</b>	<b>2,356</b>	<b>0</b>	<b>52,412</b>	

#### 2.2.4. Advance payments

	Balance at 30-09-2019	Balance at 31-12-2018
Advance payments transferred in connection with performed contracts	12,043	16,623
Other advance payments	24	0
Allowances for advance payments	-42	-42
<b>Total advance payments due</b>	<b>12,025</b>	<b>16,581</b>

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

	Balance at 30-09-2019	Balance at 31-12-2018
Advance payments received in connection with performed contracts	31,628	75,007
Other advance payments	0	0
<b>Total advance payments received</b>	<b>31,628</b>	<b>75,007</b>

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

#### 2.2.5. Accruals

	Balance at 30-09-2019	Balance at 31-12-2018
Provisions for contract costs	93,896	54,809
Other accruals	262	211
<b>Total</b>	<b>94,158</b>	<b>55,020</b>

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

### 2.3. Trade and other receivables and payables

#### 2.3.1. Trade and other receivables

	Balance at 30-09-2019	Balance at 31-12-2018
Trade receivables	185,279	183,411
Allowances for trade receivables in connection with the increase in credit risk	-19,176	-16,101
Allowances for trade receivables – initial for expected credit losses	-60	-60
Other receivables	5,153	4,253



<b>Total trade and other receivables</b>	<b>171,196</b>	<b>171,503</b>
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Other receivables include the security created in connection with the financing agreement of PLN 4,000 thousand.

The allowances connected with the increase in credit risk of PLN 19,176 thousand include, in particular:

- Debit notes issued by the Company for the penalties, damages and substitute performance. The amount is for presentation purposes only because the notes were not the Company's revenue at the moment of issue;
- Receivables under court and enforcement proceedings; and
- Doubtful receivables.

#### Changes in loss allowances for receivables

The change in allowances for trade receivables influencing the profit or loss includes the release of allowances PLN 7 thousand and the creation of allowances of PLN 334 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by ZUE for the penalties and damages that were not the Company's revenue at the moment of issue.

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

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Counterparty A	93,676	147,395
Counterparty B	33,317	
Counterparty C	23,764	

The concentration of credit risk is limited due to the fact that the creditability of the abovementioned counterparties assessed, *inter alia*, by analysing their financial standing, is high and the fact that they meet additional requirements concerning the settlement of EU funds. The Group has carried out the construction contracts for the Counterparty A, the Counterparty B and the Counterparty C for many years. The Counterparty A is co-owned by the State Treasury as a result of which their creditability is even higher. The Counterparty B and the Counterparty C are the big city centres. Accordingly, the Management Board of the Company believe there is no need to create additional provisions.

#### 2.3.2. Trade and other payables

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Trade payables	114,735	174,985
Liabilities to the state budget other than corporate income tax	28,098	30,798
Other payables	97	73
<b>Total trade and other payables</b>	<b>142,930</b>	<b>205,856</b>

#### 2.4. Debt and management of capital and liquidity

ZUE cooperates with banks to ensure the proper financing of its day-to-day operations and to obtain the bonds enabling the Company to carry out the scheduled projects.

In the reporting period, ZUE used own resources and credit limits to finance its day-to-day operations. As at 30 September 2019, the Company could use overdraft and working credit facility limits in the total amount of PLN 22,419 thousand. The available bond lines provided by banks and insurance companies amounted to PLN 304,818 thousand.

#### 2.4.1. Loans and bank credits

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
<b>Long-term</b>	<b>0</b>	<b>0</b>
Bank credits	0	0
Loans received	0	0

<b>Short-term</b>	<b>19,679</b>	<b>0</b>
Bank credits	19,679	0
Loans received	0	0
<b>Total</b>	<b>19,679</b>	<b>0</b>

### Summary of credit agreements

No.	Bank	Description	Principal/limit according to the agreement as at 30-09-2019	Amount of available credits as at 30-09-2019	Use as at 30-09-2019	Interest	Repayment date
1	mBank S.A.	Overdraft	10,000	2,419	7,581	O/N WIBOR + margin	July 2020
2	mBank S.A.	Master agreement	50,000		12,098	3M WIBOR + margin	July 2020
		including:					
		sublimit for bonds	10,000		0		
		Non-revolving working credit facility	40,000	0	12,098		
3	BNP Paribas Bank Polska S.A. (i)	Multipurpose credit line agreement	170,000		75,272	1M WIBOR + margin	October 2020
		including:					
		sublimit for bonds	170,000		75,272		
		sublimit for working credit facilities	20,000	20,000	0		
<b>Total amount of available credits</b>				<b>22,419</b>			
<b>Total credit debt</b>					<b>19,679</b>		
<b>Total use for bonds</b>					<b>75,272</b>		

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

1. **Overdraft** – bill of exchange.
2. **Master agreement:**
  - a) Mortgage;
  - b) Borrower's statement on submission to enforcement.

3. **Multipurpose credit limit agreement:**

- a) Bill of exchange;
- b) Cash deposit for the bonds expiring after 37 months;
- c) Security deposit of PLN 4,000 thousand;
- d) Registered pledge on non-current assets owned by the borrower;
- e) Assignment of rights under policy;
- f) Borrower's statement on submission to enforcement.

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

- mBank – Overdraft (no. 1) – Annex of 27 June 2019 whereby the credit was renewed for a further term.
- mBank – Master Agreement (no. 2) – Annex of 21 February 2019 whereby the Cooperation Agreement was renamed to the Master Agreement and the sublimit for working credit facilities was raised to PLN 40,000 thousand. On 22 February 2019, the working credit facility agreement was signed as part of the available sublimit under the Master Agreement. The credit was repaid on 22 October 2019; i.e. before the credit repayment date scheduled according to the Agreement as 30 October 2019.

The Company took measures to extend the multipurpose credit limit agreement (no. 3) with BNP Paribas Bank Polska for another year.

On 19 November 2019, the Company and Agencja Rozwoju Przemysłu S.A. with registered office in Warsaw entered into the loan agreement of up to PLN 20m. The amount would be used to finance day-to-day operations.

**Comparative information:**

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

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

#### 2.4.2. Lease liabilities

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Non-current lease liabilities	13,986	14,781
Current lease liabilities	11,719	12,963
<b>Total</b>	<b>25,705</b>	<b>27,744</b>

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

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

#### 2.4.3. Capital management

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

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Long- and short-term loans and bank credits	19,679	0
Long- and short-term lease liabilities	25,705	27,744
Long- and short-term other financial liabilities	36	36
<b>Total financial liabilities</b>	<b>45,420</b>	<b>27,780</b>
Cash and cash equivalents	4,313	79,404
<b>Net debt</b>	<b>41,107</b>	<b>-51,624</b>
Equity	149,919	146,242
<b>Net debt to equity ratio</b>	<b>27.42%</b>	<b>-35.30%</b>

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

#### 2.4.4. Cash and cash equivalents

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Cash on hand and at banks	4,313	79,404
Bank deposits up to three months	0	0
<b>Total</b>	<b>4,313</b>	<b>79,404</b>

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

The cash as at 30 September 2019 does not include the amount of PLN 2,115 thousand kept on escrow accounts attributable to consortium members. The Company believes that the cash cannot be defined as an asset and is not presented in the balance sheet at 30 September 2019. The cash kept on ZUE's escrow accounts as at 31 December 2018 was PLN 2,962 thousand.

### Discussion of items of the statement of cash flows

The Company's cash flows from operating activities of PLN (-) 81,505 thousand were mainly influenced by changes in the measurement of long-term construction contracts, payables, advance payments, accruals, short-term provisions, retentions and inventories in connection with the performance of construction contracts.

The Company's cash flows from investing activities of PLN (-) 827 thousand were mainly influenced by the purchase of non-current assets financed by own resources and the repayment of granted loans.

The Company's cash flows from financing activities of PLN 7,247 thousand were mainly influenced by the greater use of external financing and the settlement thereof and the decrease in liabilities under leases.

	<b>Balance at 30-09-2019</b>	<b>Balance at 30-09-2018</b>
Cash flows from operating activities	-81,505	-82,887
Cash flows from investing activities	-827	-17,634
Cash flows from financing activities	7,247	6,114
<b>Total net cash flows</b>	<b>-75,085</b>	<b>-94,407</b>
Cash at the beginning of the period	79,404	116,144
Cash at the end of the period	4,313	21,759

## 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
<b>Balance at 1 January 2019</b>	0	24,634	51,268	85,378	2,147	163,427	302	0	163,729
<b>Opening balance adjustment</b>		0	-19,437	-35,890	0	-55,327	0	0	-55,327
<b>Balance at 1 January 2019 after opening balance adjustment</b>	0	24,634	31,831	49,488	2,147	108,100	302	0	108,402
Additions	0	52	876	2,755	39	3,722	559	0	4,281
Reclassification – right of use*	0	0	3,887	3,813	0	7,700		0	7,700
Transfer to non-current assets	0	0	0	0	0	0	623	0	623
Sale/liquidation	0	0	605	491	50	1,146	0	0	1,146
<b>Balance at 30 September 2019</b>	0	24,686	35,989	55,565	2,136	118,376	238	0	118,614

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
<b>Balance at 1 January 2019</b>	0	8,498	22,207	29,445	1,764	61,914	0	0	61,914
<b>Opening balance adjustment</b>	0	0	-1,964	-1,919	0	-3,883			-3,883
<b>Balance at 1 January 2019 after opening balance adjustment</b>	0	8,498	20,243	27,526	1,764	58,031	0	0	58,031
Elimination on disposal of assets	0	0	591	410	50	1,051	0	0	1,051
Reclassification – right of use* - depreciation expense	0	0	599	343	0	942			942
Depreciation expense	0	538	1,854	3,302	69	5,763	0	0	5,763
<b>Balance at 30 September 2019</b>	0	9,036	22,105	30,761	1,783	63,685	0	0	63,685

**Carrying amount**

<b>Balance at 1 January 2019</b>	<b>0</b>	<b>16,136</b>	<b>29,061</b>	<b>55,933</b>	<b>383</b>	<b>101,513</b>	<b>302</b>	<b>0</b>	<b>101,815</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>		<b>16,136</b>	<b>11,588</b>	<b>21,962</b>	<b>383</b>	<b>50,069</b>	<b>302</b>	<b>0</b>	<b>50,371</b>
<b>Balance at 30 September 2019</b>	<b>0</b>	<b>15,650</b>	<b>13,884</b>	<b>24,804</b>	<b>353</b>	<b>54,691</b>	<b>238</b>	<b>0</b>	<b>54,929</b>

\*Lease repurchase.

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

As at 30 September 2019, the amount of net liabilities incurred to purchase property, plant and equipment was PLN 819 thousand. As at 30 September 2019, the gross carrying amount of fully depreciated property, plant and equipment still used by the Company was PLN 15,909 thousand.

Opening balance adjustment results from the implementation of IFRS 16.

**Assets pledged as security**

Note 2.5.13 deals with property, plant and equipment pledged as security for bank agreements.

The Company's lease liabilities (note 2.4.2) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

**Comparative information:**

Gross value	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at 1 January 2018</b>	<b>0</b>	<b>24,576</b>	<b>45,960</b>	<b>67,095</b>	<b>2,069</b>	<b>139,700</b>	<b>3,202</b>	<b>3,705</b>	<b>146,607</b>
Additions	0	47	7,331	19,474	114	26,966	10,747	945	38,658
Presentation adjustment	0	11	0	-11	0	0	0	0	0
Transfer to non-current assets	0	0	0	0	0	0	13,647	4,650	18,297
Sale/liquidation	0	0	2,023	1,180	36	3,239	0	0	3,239
<b>Balance at 31 December 2018</b>	<b>0</b>	<b>24,634</b>	<b>51,268</b>	<b>85,378</b>	<b>2,147</b>	<b>163,427</b>	<b>302</b>	<b>0</b>	<b>163,729</b>

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
<b>Balance at 1 January 2018</b>	<b>0</b>	<b>7,710</b>	<b>20,567</b>	<b>24,643</b>	<b>1,683</b>	<b>54,603</b>	<b>0</b>	<b>0</b>	<b>54,603</b>
Elimination on disposal of assets	0	0	1,524	938	35	2,497	0	0	2,497
Depreciation expense	0	788	3,164	5,740	116	9,808	0	0	9,808
<b>Balance at 31 December 2018</b>	<b>0</b>	<b>8,498</b>	<b>22,207</b>	<b>29,445</b>	<b>1,764</b>	<b>61,914</b>	<b>0</b>	<b>0</b>	<b>61,914</b>

Carrying amount	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at 1 January 2018</b>	<b>0</b>	<b>16,866</b>	<b>25,393</b>	<b>42,452</b>	<b>386</b>	<b>85,097</b>	<b>3,202</b>	<b>3,705</b>	<b>92,004</b>
<b>Balance at 31 December 2018</b>	<b>0</b>	<b>16,136</b>	<b>29,061</b>	<b>55,933</b>	<b>383</b>	<b>101,513</b>	<b>302</b>	<b>0</b>	<b>101,815</b>



## 2.5.2. Investment property

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

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
<b>Balance at 1 January 2019</b>	0	1,677	2,444	0	0	0	4,121
Opening balance adjustment	0	0	0	0	0	0	0
<b>Balance at 1 January 2019 after opening balance adjustment</b>	0	1,677	2,444	0	0	0	4,121
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	165	219	0	0	0	384
<b>Balance at 30 September 2019</b>	0	1,842	2,663	0	0	0	4,505

Carrying amount	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
<b>Balance at 1 January 2019</b>	126	3,551	4,965	0	0	0	8,642
<b>Balance at 1 January 2019 after opening balance adjustment</b>	126	4,910	4,965	0	0	0	10,001

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<b>Balance at 30 September 2019</b>	<b>126</b>	<b>4,745</b>	<b>4,746</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,617</b>
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The investment property as at 30 September 2019 included:  
- the real estate in Kościelisko (plots no. 2001 and 2491); and  
- the real estate in Poznań (plot no. 2/1).

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

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

Opening balance adjustment results from the implementation of IFRS 16.

**Comparative information:**

<b>Gross value</b>	<b>Freehold land</b>	<b>Leasehold</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>TOTAL</b>
<b>Balance at 1 January 2018</b>	<b>126</b>	<b>5,228</b>	<b>7,397</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,751</b>
Additions	0	0	12	0	0	0	12
Impairment	0	0	0	0	0	0	0
Sale/liquidation	0	0	0	0	0	0	0
<b>Balance at 31 December 2018</b>	<b>126</b>	<b>5,228</b>	<b>7,409</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,763</b>

<b>Depreciation</b>	<b>Freehold land</b>	<b>Leasehold</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>TOTAL</b>
<b>Balance at 1 January 2018</b>	<b>0</b>	<b>1,505</b>	<b>2,151</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,656</b>
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	172	293	0	0	0	465
<b>Balance at 31 December 2018</b>	<b>0</b>	<b>1,677</b>	<b>2,444</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,121</b>

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

### 2.5.3. Intangible assets

#### Structure of intangible assets:

	Balance at 30-09-2019	Balance at 31-12-2018
<b>Acquired concessions, patents, licenses and similar assets, including:</b>	<b>403</b>	<b>190</b>
- Software	403	190
<b>Other intangible assets, including:</b>	<b>0</b>	<b>7,925</b>
- Leasehold	0	7,925
<b>Total</b>	<b>403</b>	<b>8,115</b>

#### Movements in intangible assets:

	Leasehold land	Other intangible assets – software	Total
<b>Gross value</b>			
<b>Balance at 1 January 2019</b>	<b>9,038</b>	<b>3,920</b>	<b>12,958</b>
<b>Opening balance adjustment</b>	<b>-9,038</b>	<b>0</b>	<b>-9,038</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>3,920</b>	<b>3,920</b>
Additions	0	291	291
Sale/liquidation	0	56	56
<b>Balance at 30 September 2019</b>	<b>0</b>	<b>4,155</b>	<b>4,155</b>
<b>Amortisation and impairment</b>			
<b>Balance at 1 January 2019</b>	<b>1,113</b>	<b>3,730</b>	<b>4,843</b>
<b>Opening balance adjustment</b>	<b>-1,113</b>	<b>0</b>	<b>-1,113</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>3,730</b>	<b>3,730</b>
Amortisation expense	0	78	78
Sale/liquidation	0	56	56
<b>Balance at 30 September 2019</b>	<b>0</b>	<b>3,752</b>	<b>3,752</b>
<b>Carrying amount</b>			
<b>Balance at 1 January 2019</b>	<b>7,925</b>	<b>190</b>	<b>8,115</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>190</b>	<b>190</b>
<b>Balance at 30 September 2019</b>	<b>0</b>	<b>403</b>	<b>403</b>

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

Opening balance adjustment results from the implementation of IFRS 16.

**Comparative information:**

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

#### 2.5.4. Right-of-use assets

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total right-of-use assets	Right-of-use assets under construction	Prepaid right-of-use assets under construction	TOTAL
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Opening balance adjustment	812	13,164	932	19,438	36,564	0	70,910	0	0	70,910
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>812</b>	<b>13,164</b>	<b>932</b>	<b>19,438</b>	<b>36,564</b>	<b>0</b>	<b>70,910</b>	<b>0</b>	<b>0</b>	<b>70,910</b>
Conclusion of new contracts	467	0	406	0	865	0	1,738	0	0	1,738
Changes resulting from the amendments to contracts	-17	0	0	0	-23	0	-40	0	0	-40
Reclassification – right-of-use*	0	0	0	-3,887	-3,813		-7,700			-7,700
Changes resulting from the shortening of contracts	0	0	-155	0	0	0	-155	0	0	-155
<b>Balance at 30 September 2019</b>	<b>1,262</b>	<b>13,164</b>	<b>1,183</b>	<b>15,551</b>	<b>33,593</b>	<b>0</b>	<b>64,753</b>	<b>0</b>	<b>0</b>	<b>64,753</b>
Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Opening balance adjustment	0	1,112	0	1,964	1,920	0	4,996	0	0	4,996
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>1,112</b>	<b>0</b>	<b>1,964</b>	<b>1,920</b>	<b>0</b>	<b>4,996</b>	<b>0</b>	<b>0</b>	<b>4,996</b>
Depreciation expense	398	122	488	674	1,745	0	3,427	0	0	2,427
Reclassification – right of use* - depreciation expense	0	0	0	-599	-343	0	-942	0	0	-942
Elimination on the shortening of contract	0	0	43	0	0		43			43
<b>Balance at 30 September 2019</b>	<b>398</b>	<b>1,234</b>	<b>445</b>	<b>2,039</b>	<b>3,322</b>	<b>0</b>	<b>7,438</b>	<b>0</b>	<b>0</b>	<b>7,438</b>
<b>Carrying amount</b>										
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>812</b>	<b>12,052</b>	<b>932</b>	<b>17,474</b>	<b>34,644</b>	<b>0</b>	<b>65,914</b>	<b>0</b>	<b>0</b>	<b>65,914</b>
<b>Balance at 30 September 2019</b>	<b>864</b>	<b>11,930</b>	<b>738</b>	<b>13,512</b>	<b>30,271</b>	<b>0</b>	<b>57,315</b>	<b>0</b>	<b>0</b>	<b>57,315</b>

\*Lease repurchase.

Opening balance adjustment results from the implementation of IFRS 16.

### 2.5.5. Goodwill

<b>At cost</b>	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Goodwill of PRK	31,172	31,172
<b>Balance at the end of the reporting period</b>	<b>31,172</b>	<b>31,172</b>

ZUE merged with Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A (PRK) on 20 December 2013. The control of PRK was gained by ZUE in 2010.

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

ZUE and PRK merged under joint control.

The entire goodwill is assigned to the construction segment.

### Annual goodwill impairment test

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

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

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

The total capital expenditures disclosed in the cash flow statement in the reporting period amounted to PLN 3,633 thousand.

At 30 September 2019, net liabilities incurred to purchase property, plant and equipment amounted to PLN 819 thousand.

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

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

- Complete overhauls of vehicles (mainly wagons) – PLN 2,582 thousand;
- Purchase of handcar – PLN 389 thousand;
- Purchase of server – PLN 154 thousand.

In the three quarters of 2019, the Company sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 81 thousand. In the three quarters of 2018, the Company sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 581 thousand.

### 2.5.7. Advanced loans

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Loans advanced to related parties	311	2,863
Loans advanced to other parties	288	288
Impairment losses	-364	-347
<b>Total</b>	<b>235</b>	<b>2,804</b>

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



### 2.5.8. Inventories

	Balance at 30-09-2019	Balance at 31-12-2018
Goods, raw and other materials	25,479	36,578
Work-in-progress	2,355	534
Finished goods	199	199
<b>Total</b>	<b>28,033</b>	<b>37,311</b>

### 2.5.9. Financial instruments

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

#### Balance at 30 September 2019

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through:		Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
		Profit or loss	Other comprehensive income		
Retentions on construction contracts (before discount)	16,244	0	0	0	30,979
Trade receivables	185,279	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	235	0	0	0	0
Cash and cash equivalents	4,313	0	0	0	0
Loans and bank credits	0	0	0	0	19,679
Lease liabilities	0	0	0	0	25,705
Trade payables	0	0	0	0	114,735
<b>Total</b>	<b>206,071</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>191,134</b>

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

#### Balance at 31 December 2018

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through:		Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
		Profit or loss	Other comprehensive income		
Retentions on construction contracts (before discount)	13,513	0	0	0	20,215
Trade receivables	183,411	0	0	0	0
Other financial liabilities	0	0	0	0	36
Loans advanced	2,804	0	0	0	0
Cash and cash equivalents	79,404	0	0	0	0

Loans and bank credits	0	0	0	0	0
Lease liabilities	0	0	0	0	27,744
Trade payables	0	0	0	0	174,985
<b>Total</b>	<b>279,132</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>222,980</b>

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

#### 2.5.10. Transactions with related parties

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

	Receivables		Payables	
	Balance at		Balance at	
	30-09-2019	31-12-2018	30-09-2019	31-12-2018
Railway gft	138	60	647	3,745
BPK Poznań	1,404	1,315	1,334	3,038
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	53	0	0	0
<b>Total</b>	<b>1,595</b>	<b>1,375</b>	<b>1,981</b>	<b>6,783</b>

	Revenue		Purchases	
	Period ended		Period ended	
	30-09-2019	30-09-2018	30-09-2019	30-09-2018
Railway gft	361	259	8,766	5,476
BPK Poznań	409	420	5,793	6,349
RTI	3	3	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	48	0	0	0
<b>Total</b>	<b>821</b>	<b>682</b>	<b>14,559</b>	<b>11,825</b>

	Advanced loans		Financial income (interest)	
	Balance at		Period ended	
	30-09-2019	31-12-2018	30-09-2019	30-09-2018
Railway gft	0	2,783	35	72
BPK Poznań	235	0	5	0
RTI	0	21	0	0
RTI Germany	76	59	0	1
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>311</b>	<b>2,863</b>	<b>40</b>	<b>73</b>

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

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

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

In the reporting period, ZUE imposed contractual penalties in the total amount of PLN 1,333 thousand on the consortia whose leader was BPK Poznań. The Company did not recognise the penalties in revenues. After the end of the reporting period, the agreement was signed whereby ZUE waived some of these claims. Consequently, the abovementioned amount was reduced to PLN 427 thousand.

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

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

In the reporting period, ZUE executed the following transactions:

- o Lease of business establishments to RTI on the basis of the lease of 31 December 2015;
- o 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; and
- o Lease of business establishments to Railway gft on the basis of the lease of 10 August 2017 (effective since 1 October 2017), as amended.

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

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

On 29 March 2019, ZUE and Railway gft signed an annex no. 1 to the loan agreement of 24 January 2018 whereby the loan repayment date was extended until 30 June 2019. Under the agreement, the loan may be repaid in instalments. The last instalment including interest was paid on 10 June 2019.

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

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

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

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total amount of the guarantees as at 30 September 2019 is PLN 24,651 thousand.

On 1 October 2019, ZUE and Railway gft signed the agreement for the guarantee of liabilities, which replaced the existing agreement. The amendments concerned the fee for the guarantee of liabilities. The agreement was concluded for indefinite period.

On 1 October 2019, ZUE and BPK Poznań signed the agreement for the guarantee of liabilities, which replaced the existing agreement. The amendments concerned the fee for the guarantee of liabilities. The agreement was concluded for indefinite period.

On 31 October 2019, ZUE made the advance payment of PLN 700 thousand to BPK Poznań on account of performed contracts.

#### Remuneration of key management personnel

	<b>Period ended 30-09-2019</b>	<b>Period ended 30-09-2018</b>
Management Board	3,133	2,992
Supervisory Board	236	347
<b>Total</b>	<b>3,369</b>	<b>3,339</b>

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

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

The court cases are presented in detail in the note III 4.7.11 of the consolidated financial statements.

### 2.5.12. Tax settlements

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

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

No significant or quantifiable tax risks were recognised by the Company at 30 September 2019 or 31 December 2018.

Customs and tax inspection was carried out at ZUE in the reporting period in connection with the tax on income earned in 2014. Pursuant to Art. 82.3 of the Polish Act on National Tax Administration, the Company adjusted the previously submitted tax return and paid the tax of PLN 234 thousand plus interest. The adjustment concerned the acquisition of shares in exchange for claims. The inspection was completed.

### 2.5.13. Contingent assets and contingent liabilities

#### Contingent assets

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Bonds	70,196	70,125
Guarantees	0	0
Bills of exchange	4,877	7,470
Mortgages	0	0
Pledges	300	0
<b>Total</b>	<b>75,373</b>	<b>77,595</b>

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

#### Contingent liabilities

	<b>Balance at 30-09-2019</b>	<b>Balance at 31-12-2018</b>
Bonds	493,279	587,879
Guarantees	24,651	24,951
Bills of exchange	345,706	342,424
Mortgages	55,159	54,259
Pledges	18,035	19,927
<b>Total</b>	<b>936,830</b>	<b>1,029,440</b>

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

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

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

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

Registered pledges were established in connection with annexes to the agreements between ZUE and BNP PARIBAS and PEKAO whereby limits had been raised and the agreement with BGK. A pledge established to secure the bond limit with BGK was removed on 31 October 2019. The pledged assets include wagons, pile driver and maintenance train.

In addition, a registered pledge was established in connection with the credit agreement with mBank entered into by a subsidiary. The pledge is on inventories.

On 1 October 2019, the Company and ZK "LEV INS" AD of Sofia (the Counterparty) concluded the agreement whereby the performance and defects liability bond in the total amount of PLN 31.6m was issued by the Counterparty.

#### **2.5.14. Liabilities incurred to purchase property, plant and equipment**

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

#### **2.5.15. Discontinued operations**

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

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

Construction and assembly operations are marked by the seasonality of production and sales. The topic has been discussed in detail in the note III 2.11 Seasonal and cyclical nature of the Group's operations.

#### **2.5.17. Issue and redemption of debt and equity securities**

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

#### **2.5.18. Dividend**

No dividend was paid the Company in the reporting period.

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

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

### **2.6. Other notes to the financial statements**

#### **2.6.1. Use of the International Financial Reporting Standards**

##### **Statement of compliance**

The condensed separate financial statements have been drawn up in accordance with IAS 34 as at 30 September 2019 as endorsed by the European Union (EU).

The separate financial statements for the nine months ended 30 September 2019 have been prepared according to the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent.

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

The following amendments to the existing standards published by the International Accounting Standards Board and approved for use in the European Union come into force in 2019:

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments following from the review of IFRS 2015-2017** (effective for annual periods beginning on or after 1 January 2019);
- **IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

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

#### Standards and interpretations adopted by the IASB but not yet approved by the EU

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"** (the effective date has been deferred by the IASB indefinitely);
- **Amendments to IAS 1 and IAS 8: "Definition of Material"** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).
- **Amendments to IFRS 9, IAS 39 and IFRS 7 - "Interest Rate Benchmark Reform"** (effective for annual periods beginning on or after 1 January 2020).

#### 2.6.2. Important accounting principles

##### 2.6.2.1. Going concern

The quarterly condensed financial statements of ZUE have been prepared assuming that the Company will continue in operational existence for at least 12 months after the end of the reporting period; i.e. 30 September 2019. 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 as a going concern include liquidity, a proper backlog and market situation.

The following facts should be taken into account when analysing the Company's financial situation: in the nine months ended 30 September 2019, the Company recognised the sales revenue of PLN 707m (a year-on-year increase by 39%) and the gross profit of PLN 19.8m. As at 30 September 2019, the Company presented the current assets of PLN 375m, including the cash of more than PLN 4.3m. At the date of preparation of this report, the Company had the backlog of approx. PLN 2,004m. The Company is in the process of obtaining new contracts.

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

### 2.6.2.2. Preparation basis

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.

### 2.6.2.3. Comparability of financial information

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

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

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

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

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

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

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

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

Short-term loans and bank credits	0	0	0
Current lease liabilities	12,963	0	12,963
<b>Total current liabilities</b>	<b>415,896</b>	<b>415,896</b>	<b>0</b>
<b>Total liabilities</b>	<b>450,376</b>	<b>450,376</b>	<b>0</b>
<b>Total equity and liabilities</b>	<b>596,618</b>	<b>596,618</b>	<b>0</b>

#### 2.6.2.4. Applied accounting principles

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

#### 2.6.2.5. Changes to accounting principles and financial statements preparation

##### Implementation of IFRS 16

##### Application of IFRS 16 for the first time

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

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

##### Impact of IFRS 16 on the Company's financial statements

Implementing IFRS 16 with a modified retrospective approach.

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

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

##### Practical solutions used by the Company

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

1. Not to recognise operating leases with a lease term less than 12 months of 1 January 2019, which were treated as short-term leases;
2. Not to recognise leases where the underlying asset has a low value; i.e. PLN 20 thousand;
3. To use a single discount rate to a portfolio of leases with similar characteristics;



4. To exclude initial direct costs from the measurement of the right of use asset at the date of initial application;
5. To use knowledge, such as in determining the lease term if the contract contains options to extend or terminate the lease.

**Exemptions offered by practical solutions:**

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

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

**Impact on the Company's accounting**

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

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

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

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

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

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

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

Leasehold land in investment property	1,359
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Right-of-use liabilities recognised as at 1 January 2019 (contracts which contain a lease)

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

Contracts previously recognised as finance lease

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

Presentation at 1 January 2019:

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

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

Right-of-use assets – reclassified from intangible assets

Leasehold land	7,925
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**Impact of the implementation of IFRS 16 on the financial statements**

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

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

	According to IFRS 16	Approved	Effect of changes
	Balance at 2019-01-01	Balance at 2018-12-31	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	50,371	101,815	-51,444
Investment property	10,001	8,642	1,359
Intangible assets	190	8,115	-7,925
Right-of-use assets	65,914	0	65,914
<b>Total non-current assets</b>	<b>189,817</b>	<b>181,913</b>	<b>7,904</b>
<b>Total current assets</b>	<b>414,705</b>	<b>414,705</b>	<b>0</b>
<b>Total assets</b>	<b>604,522</b>	<b>596,618</b>	<b>7,904</b>
<b>EQUITY AND LIABILITIES</b>			
	According to IFRS 16	Approved	
	Balance at 2019-01-01	Balance at 2018-12-31	Effect of changes
<b>Total equity</b>	<b>146,242</b>	<b>146,242</b>	<b>0</b>
Long-term loans and bank credits and other financing sources	0	14,781	-14,781
Long-term loans and bank credits	0	0	0
Long-term lease liabilities	21,225	0	21,225
<b>Total non-current liabilities</b>	<b>40,924</b>	<b>34,480</b>	<b>6,444</b>
Short-term loans and bank credits and other financing sources	0	12,963	-12,963
Short-term loans and bank credits	0	0	0
Short-term lease liabilities	14,423	0	14,423
<b>Total current liabilities</b>	<b>417,356</b>	<b>415,896</b>	<b>1,460</b>
<b>Total liabilities</b>	<b>458,280</b>	<b>450,376</b>	<b>7,904</b>
<b>Total equity and liabilities</b>	<b>604,522</b>	<b>596,618</b>	<b>7,904</b>

### 2.6.3. Sources of estimation uncertainty

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

The estimates relate, *inter alia*, to:

Impairment of goodwill (note no. 2.5.5.)

Useful economic lives of non-current assets

Loss allowances for receivables (note no. 2.3.1.)

Provisions (note no. 2.2.3.)

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

Deferred income tax (note no. 2.1.7.)

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

Uncertainty over tax settlements (note no. 2.5.12.)

The following revisions to estimates occurred in the reporting period:

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

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

### **3. Approval of the condensed separate financial statements**

These condensed separate financial statements for the nine months ended 30 September 2019 were approved for publication by the Management Board of ZUE on 19 November 2019.

### **4. Signatures**

**The financial statements have been prepared by:**

Ewa Bosak – Chief Accountant

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**Signatures of the management personnel:**

Wiesław Nowak – Management Board President

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Anna Mroczek – Management Board Vice-President

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Jerzy Czeremuga – Management Board Vice-President

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Maciej Nowak – Management Board Vice-President

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Marcin Wiśniewski – Management Board Vice-President

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Cracow, 19 November 2019