



**EXTENDED CONSOLIDATED QUARTERLY REPORT
FOR 3 MONTHS ENDED 31 MARCH 2016
ZUE Capital Group**

Cracow, 29 April 2016

Contents of Quarterly Consolidated Report for Q1 2016

- I. Selected Financial Data of ZUE Capital Group.
- II. Abbreviated Consolidated Financial Statements of ZUE Capital Group and Notes to the Financial Statements.
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Abbreviations and definitions:

ZUE, Company, Issuer	ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,757,520.75 paid up in full. Parent company of the ZUE Capital Group.
BPK Poznań	Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań - Nowe Miasto i Wilda 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	Raliway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full. Subsidiary of ZUE.
RTI	Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 225,000 paid up in full. Subsidiary of ZUE.
RTI Germany	Railway Technology International Germany GmbH with registered office in Hamburg, Germany, entered into the German Register of Entrepreneurs (<i>Handelsregister B, HRB</i>) maintained by the District Court in Hamburg (<i>Amtsgericht Hamburg</i>) under entry no. HRB 125764. 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 ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Journal of Laws of 2000, no. 94, item 1037, as amended).

Share capital details as at 31 March 2016.

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I. SELECTED FINANCIAL DATA OF ZUE CAPITAL GROUP

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 31 Mar 2016	Exchange rate on 31 Dec 2015	Exchange rate on 31 Mar 2015
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2684	4.2615	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	4.3559	4.1848	4.1489
"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	4.2684	4.2615	4.0890

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

	As at 31-03-2016		As at 31-12-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	140,936	33,019	141,321	33,163
Current assets	219,268	51,370	282,224	66,226
Total assets	360,204	84,389	423,545	99,389
Equity	212,841	49,864	216,344	50,767
Non-current liabilities	27,585	6,463	29,203	6,853
Current liabilities	119,778	28,062	177,998	41,769
Total equity and liabilities	360,204	84,389	423,545	99,389

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

	3 months ended 31-03-2016		3 months ended 31-03-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	34,575	7,938	65,406	15,765
Cost of sales	35,252	8,093	61,685	14,868
Gross profit (loss) on sales	-677	-155	3,721	897
Profit (loss) on operating activities	-4,260	-978	464	112
Gross profit (loss)	-4,164	-956	388	93
Net profit (loss) from continuing operations	-3,503	-804	18	4
Total comprehensive income	-3,503	-804	18	4

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

	3 months ended		3 months ended	
	31-03-2016		31-03-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-26,879	-6,171	-11,515	-2,775
Cash flows from investing activities	-332	-76	-3,226	-778
Cash flows from financing activities	-1,621	-372	-3,233	-779
Total net cash flows	-28,832	-6,619	-17,974	-4,332
Cash at the beginning of the period	172,334	40,440	71,405	16,753
Cash at the end of the period	143,518	33,623	53,449	13,072

II. ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Consolidated statement of comprehensive income

(PLN '000)

Continuing operations	3 months ended	3 months ended
	31-03-2016	31-03-2015
Revenue	34,575	65,406
Cost of sales	35,252	61,685
Gross profit (loss) on sales	-677	3,721
General and administrative expenses	5,182	5,054
Other operating income	2,006	3,620
Other operating expenses	407	1,823
Bargain purchase gain	0	
Operating profit (loss)	-4,260	464
Financial income	524	354
Financial expenses	428	430
Pre-tax profit (loss)	-4,164	388
Corporate income tax	-661	370
Net profit (loss) from continuing operations	-3,503	18
Net profit (loss)	-3,503	18
Other net comprehensive income		
Items that will not be reclassified subsequently to profit or loss:	0	0
Remeasurement of liabilities under employee benefits	0	0
Other total net comprehensive income	0	0
Total comprehensive income	-3,503	18
Number of shares	23,030,083	23,030,083
Consolidated net profit attributable to:		
Shareholders of the parent	-3,269	18
Minority shareholders	-234	0
Net profit (loss) per share (PLN) (basic and diluted)	-0.14	0.00
Total comprehensive income attributable to:		
Shareholders of the parent	-3,269	18
Non-controlling interests	-234	0
Total comprehensive income per share (PLN)	-0.14	0.00

Consolidated statement of financial position

	(PLN '000)	
	As at 31-03-2016	As at 31-12-2015
ASSETS		
Non-current assets		
Property, plant and equipment	80,067	81,619
Investment property	3,973	4,062
Intangible assets	10,016	10,178
Goodwill	31,172	31,172
Investments in non-consolidated subsidiaries	118	29
Advance payments for investments in subordinates	0	0
Long-term receivables	0	0
Retentions on construction contracts	6,409	5,614
Deferred tax assets	9,181	8,647
Other assets	0	0
Total non-current assets	140,936	141,321
Current assets		
Inventories	25,462	25,859
Trade and other receivables	44,030	77,839
Retentions on construction contracts	1,140	770
Current tax assets	4,041	4,030
Other financial receivables	0	0
Other assets	1,077	1,234
Loans advanced	0	158
Cash and cash equivalents	143,518	172,334
Total current assets	219,268	282,224
Total assets	360,204	423,545

	As at 31-03-2016	As at 31-12-2015
EQUITY AND LIABILITIES		
Equity		
Share capital	5,758	5,758
Share premium account	93,837	93,837
Treasury shares	-2,690	-2,690
Retained earnings	115,781	119,050
Total equity attributable to shareholders of ZUE	212,686	215,955
Equity attributable to non-controlling interests	155	389
Total equity	212,841	216,344
Non-current liabilities		
Long-term bank borrowings and other debt instruments and other financing sources	9,922	11,208
Retentions on construction contracts	7,311	8,012
Other financial liabilities	840	910
Liabilities under employee benefits	1,941	1,946
Deferred tax liabilities	1	170
Long-term provisions	7,570	6,957
Deferred revenue	0	0
Other liabilities	0	0
Total non-current liabilities	27,585	29,203
Current liabilities		
Trade and other payables	72,854	117,730
Retentions on construction contracts	7,447	11,715
Short-term bank borrowings and other debt instruments and other financing sources	11,636	11,841
Other financial liabilities	317	317
Liabilities under employee benefits	17,082	22,988
Current tax liabilities	13	66
Short-term provisions	10,429	13,341
Total current liabilities	119,778	177,998
Total liabilities	147,363	207,201
Total equity and liabilities	360,204	423,545

Consolidated statement of changes in equity

(PLN '000)

	Share capital	Share premium account	Treasury shares	Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
Balance at 1 Jan 2016	5,758	93,837	-2,690	119,050	215,955	389	216,344
Change of interest in subsidiaries	0	0	0	0	0	0	0
Dividend	0	0	0	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) for the year	0	0	0	-3,269	-3,269	-234	-3,503
Other net comprehensive income	0	0	0	0	0	0	0
Balance at 31 Mar 2016	5,758	93,837	-2,690	115,781	212,686	155	212,841

	Share capital	Share premium account	Treasury shares	Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
Balance at 1 Jan 2015	5,758	93,837	0	101,856	201,451	0	201,451
Change of interest in subsidiaries	0	0	0	0	0	0	0

Dividend	0	0	0	0	0	0	0
Issue of shares	0	0	0	0	0	0	0
Issue costs	0	0	0	0	0	0	0
Buy-back of shares	0	0	-2,324	0	-2,324	0	-2,324
Profit (loss) for the year	0	0	0	18	18	0	18
Other net comprehensive income	0	0	0	0	0	0	0
Balance at 31 Mar 2015	5,758	93,837	-2,324	101,874	199,145	0	199,145

Consolidated statement of cash flows

	(PLN)	
	3 months ended	3 months ended
	31-03-2016	31-03-2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-4,164	388
Adjustments for:		
Depreciation and amortisation	2,377	2,230
Foreign exchange gains / (losses)	-16	-18
Interest and share in profit (dividends)	-385	-113
(Gain) / loss on disposal of investments	10	264
Accrued expenses under commission on loans	0	52
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit (loss) before changes in working capital	-2,178	2,803
Change in receivables and retentions on construction contracts	32,422	38,713
Change in inventories	397	-24,333
Change in provisions and liabilities under employee benefits	-8,212	-851
Change in retentions on construction contracts and liabilities, excluding borrowings, other debt instruments and other financing sources	-49,515	-28,883
Change in accrued expenses	202	25
Change in funds of limited availability	0	0
Other adjustments	110	0
Income tax paid / tax refund	-105	1,011
NET CASH FROM OPERATING ACTIVITIES	-26,879	-11,515
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	151	183
Purchase of property, plant and equipment and intangible assets	-1,081	-1,359
Investments in real property and intangible assets	0	0
Sale / (purchase) of financial assets in other entities	0	3
Sale / (purchase) of financial assets from non-controlling shareholders	0	0
Purchase of financial assets available for sale	0	-2 324
Loans advanced	0	0
Repayment of granted loans	74	0
Dividends received	0	
Interest received	524	271
Settlement of financial instruments – expenses	0	0
Funds from acquisition of subsidiary	0	0

Sale of financial assets in associates	0	0
Other cash provided by/(used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	-332	-3,226
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings and other debt instruments received	92	0
Repayment of borrowings and other debt instruments	0	-1,882
Decrease in finance lease liabilities	-1,574	-1,203
Interest paid	-139	-147
Other cash provided by / (used in) financing activities – dividends	0	-1
Net cash from issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	-1,621	-3,233
TOTAL NET CASH FLOWS	-28,832	-17,974
Net foreign exchange gains / (losses)	16	18
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	172,334	71,405
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	143,518	53,449

Notes to the Abbreviated Consolidated Financial Statements of ZUE Capital Group

1. Functional and reporting currency

These financial statements have been prepared in Polish zloty (PLN). Polish zloty is the Group's functional and reporting currency. The data in the financial statements has been disclosed in Polish zloty, unless it has been provided in greater detail in relevant circumstances.

2. Use of International Financial Reporting Standards

Statement of compliance

The quarterly consolidated financial statements have been drawn up in accordance with the requirements of the International Financial Reporting Standards applicable as at 31 March 2016 as endorsed by the European Union.

The quarterly consolidated financial statements for the three months ended 31 March 2016 have been prepared according to the requirements binding on public companies.

Amendments to standards and interpretations used for the first time in 2016 financial statements of the Group

The following amendments to the standards and interpretations published by the International Accounting Standards Board (IASB) and approved of by the European Union come into force for the first time in the financial statements of the Group for 2016:

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations – approved of in the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure Initiative – approved of in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation – approved of in the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016);

- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** – Agriculture: Bearer Plants – approved of in the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 19 “Employee Benefits”** – Specific Benefit Programmes: Employee Benefits, approved of in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- **Amendments to IAS 27 “Separate Financial Statements”** – Equity Method in Separate Financial Statements - approved of in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to various standards “Improvements to IFRSs (2010-2012 Cycle)”** – made as part of annual improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at the resolution of inconsistencies and specification of vocabulary, approved of in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- **Amendments to various standards “Improvements to IFRSs (2012-2014 Cycle)”** – made as part of annual improvements to IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) aimed mainly at the resolution of inconsistencies and specification of vocabulary, approved of in the EU on 15 December 2015 (effective for annual periods beginning on or after 1 January 2016).

The foregoing amendments to the standards and interpretations did not have any material impact of the financial statements of the Group for 2016.

Amendments to the standards published by the IASB and approved of by the EU but not yet effective

No amendments to the standards, which had been published by the IASB and approved of by the EU but had not yet come into force, occurred while approving these financial statements.

New standards and amendments to the standards published by the IASB but not yet approved for use in the EU

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

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided not to approve this standard for use in the EU until the final version of the IFRS 14 is published;
- **IFRS 15 “Revenue from Contracts with Customers”** and subsequent amendments (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 10 “Consolidated Financial Statements,” IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and subsequent amendments (effective date was postponed until the completion of research on equity method);
- **Amendments to IAS 7 “Statement of Cash Flows”** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 “Income Taxes”** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

According to the estimates by the Group, these new standards or amendments to the standards would not have any significant impact on the financial statements if used by the Group at the end of the reporting period.

Hedge accounting for the portfolio of financial assets and financial liabilities, the rules of which have not been approved for use in the EU, is still beyond the regulations approved of by the EU.

According to the estimates by the Group, hedge accounting for the portfolio of financial assets or financial liabilities according to IAS 39 *Financial Instruments: Recognition and Measurement* would not have any significant impact on the financial statements if used by the Group at the end of the reporting period.

3. Key accounting principles

Going concern

The quarterly consolidated financial statements have been prepared assuming that the Group will continue in operational existence for the foreseeable future. No going concern risks exist at this report preparation date.

Preparation basis

When preparing these quarterly consolidated financial statements, the Group applied the regulations set out in IAS 34 "Interim Financial Reporting" and used the same principles for both current and comparable period.

Comparability of financial data

No significant changes to the presentation of financial data in the comparable periods were made.

Applied accounting principles

These quarterly consolidated financial statements for the three months ended 31 March 2016 have been prepared according to the same accounting principles and measurement methods as those used in the last annual financial statements of the Group prepared as at 31 December 2015. The financial statements of the Group for the financial year ended 31 December 2015 contain a detailed description of the accounting principles applied by the Group.

These quarterly consolidated financial statements do not include all information or 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 Capital Group.

4. Revisions to estimates

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

(PLN '000)

Changes in provisions

Provisions	01-01-2016	Created	Used	Released	Reclassified	31-03-2016
Long-term provisions:	8,903	72	12	106	-654	9,511
Provisions for employee benefits	1,946	0	0	5	0	1,941
Provisions for warranty	6,957	72	12	101	-654	7,570

claims						
Other provisions	0	0	0	0	0	0
Short-term provisions:	30,356	2,855	8,467	3,345	654	20,745
Provisions for employee benefits	17,015	2,830	8,394	1,136	0	10,315
Provisions for warranty claims	9,192	25	73	19	654	8,471
Provision for loss on contracts	1,418	0	0	690	0	728
Other provisions	2,731	0	0	1,500	0	1,231
Total:	39,259	2,927	8,479	3,451	0	30,256

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Group companies depending on the amount of revenues and taking account of the subcontractors' liability for the scope of works they have been entrusted with. 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 overtime work. Apart from the provision for employee benefits, current liabilities under employee benefits include liabilities under salaries and social security premiums.

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

Deferred tax assets and liabilities

	01-01-2016	Created	Used	(PLN '000) 31-03-2016
Deferred tax assets	21,771	828	0	22,599
Deferred tax liability	13,294	125	0	13,419
Balance of assets and liabilities	8,477			9,180

Deferred tax is presented by the Group companies according to its netted balance (IAS 12). The consolidated financial statements present the total of companies' individual net balances.

Operational information

5. Capital Group composition and core business

At the end of the reporting period, the Capital Group was 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 Technology International Germany GmbH (indirect subsidiary) and Railway gft Polska Sp. z o.o.

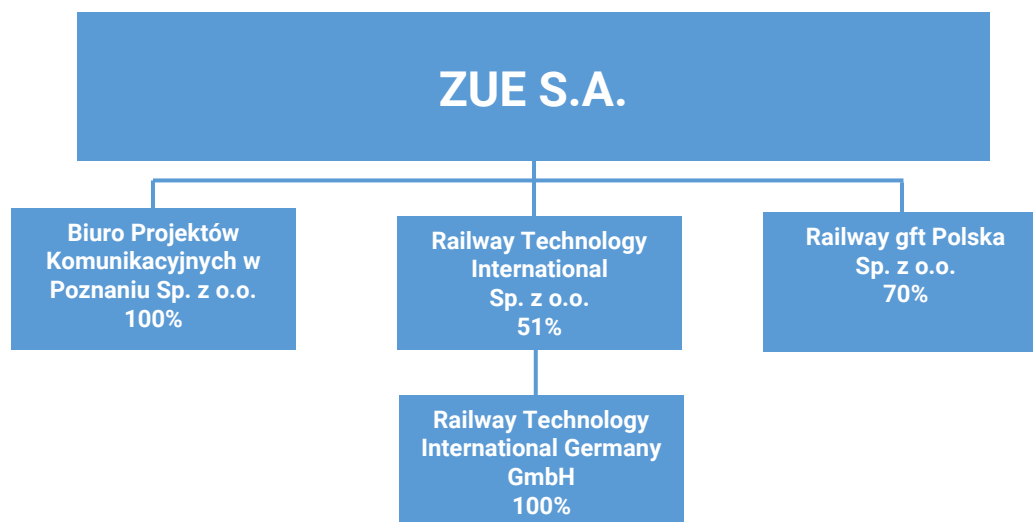
ZUE Spółka Akcyjna with registered office in Cracow (ul. Kazimierza Czapińskiego 3) is the parent company of the Capital Group.

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

ZUE is the parent company responsible for coordinating the operation of the subsidiaries and optimising the Capital Group's operating expenses through, *inter alia*, the coordination of investment and borrowing policy as

well as the management of finances, human resources and the supply of materials. In addition, ZUE's task is to create a uniform trade and marketing policy of the Capital Group and to promote the Group's potential among its customers.

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



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

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

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

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

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

6. Consolidated companies

Consolidated companies as at 31 March 2016:

Company	Registered office	Interests as at		Consolidation method
		31 Mar 2016	31 Dec 2015	
ZUE S.A.	Cracow	Parent company	Parent company	

Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	70%	70%	Full

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

ZUE holds a 51% interest in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated as at 31 March 2015.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Germany GmbH was not consolidated as at 31 March 2016.

7. **Changes in the Group's structure and their consequences**

RTI

On 22 January 2016, the Extraordinary Shareholders Meeting of RTI resolved to increase the share capital of RTI from PLN 50,000 to PLN 225,000 through the creation of 3,500 new shares with a par value of PLN 50 each. All the new shares of the total value of PLN 175,000 were acquired by the existing Shareholders proportionally to the shares already held by them and paid up in cash in the total amount of PLN 175,000. ZUE's contribution was paid up through the set-off of the Company's claims relating to loans granted to RTI. The increase of the share capital of RTI was entered in the National Court Register on 31 March 2016.

8. **Activities of the Capital Group**

The Group identifies the three aggregate operating segments:

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

Construction activities include:

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

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

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

- Rails for railways, tramways and cranes; special profiles, light rails and narrow-gauge railway;
- Steel, wooden and pre-stressed concrete sleepers;

- Crossovers and crossover components;
- Accessories required to build tram and railway tracks;
- Aggregate;
- Special technologies: RHEDA 2000® slab tracks, RHEDA CITY C, RHEDA CITY GREEN tram systems, "Ypsilon" steel sleepers.

9. Sales markets

In the reporting period, the Group continued its construction, design and sales activities.

The Group's sales markets are the consequence of the abovementioned segments and scope of activities.

In the reporting period, the major buyers of construction services provided by the Group included:

- Tramwaje Warszawskie Sp. z o.o. – "Reconstruction (upgrade) of the tram route on the Dworzec Wileński – Żerań Wschodni section." The project was executed by ZUE as the General Contractor.
- Gmina Miejska Kraków [*the City of Cracow*] represented by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie – projects executed under infrastructure maintenance agreements: "Maintenance and repair of tram infrastructure in Cracow in the period 2015 – 2018" and "Maintenance of street lighting devices in Cracow."
- Tramwaje Szczecińskie Sp. z o.o. – "Construction works consisting of the reconstruction of an administration and office building with necessary technical infrastructure on the plot no. 2/1, district 2029, of Tramwaje Szczecińskie Spółka z o.o., al. Wojska Polskiego 200 in Szczecin."
- The following contracts were performed by ZUE for PKP Polskie Linie Kolejowe S.A.:
 - Design and completion of construction works on the Cracow – Medyka – state border railway line, 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, Cracow – Rzeszów section, stage III."
 - Upgrade of the track no. 2 of the railway line no. 131 on the Tarnowskie Góry – Kalety section, reconstruction of the Baronów station and the reconstruction of 18 crossovers at the Tarnowskie Góry station, as part of the following project: "Upgrade of the Chorzów Batory - Tczew railway line no. 131, the Bydgoszcz Główna - Zduńska Wola - Chorzów Batory section."
 - Upgrade of the railway line no. 273 on the Głogów - Zielona Góra - Rzepin - Dolna Odra section. Reconstruction of track and platform systems and viaduct in the Zielona Góra station.
 - Design and completion of construction works in connection with the following project: "Upgrade of the railroad surface with auxiliary works, Smolec junction signal box, track no. 1, the Smolec – Kąty Wrocławskie route, track no. 1, the Kąty Wrocławskie – Miętków route and track no. 3 in the Boguszów Gorce Zachód station," – re-electrification of the Smolec – Kąty Wrocławskie route, track no. 1 as part of the following project: "Upgrade of Wrocław – Zgorzelec railway line no. 274 on the Wrocław-Jelenia Góra section."
 - Strengthening of the substructure on the line no. 139 Katowice – Zwardoń, tracks no. 1 and 2, section from 10,300 km to 25,360 km in the selected locations, and on the line no. 93 Trzebinia – Zebrzydowice, section from 62,260 km to 68,780 km in the selected locations, plus the accompanying works and services provided in connection with Substructure Repair Train with the use of AHM-800R formation rehabilitation machine, RM80 ballast cleaning machine and 20 hopper cars of type 426 Vb, representing the potential of the Contracting Authority - Zakład Maszyn Torowych w Krakowie.
- Polskie Sieci Elektroenergetyczne Spółka Akcyjna - "Construction of the double track 400 kV Kozienice – Ołtarzew."

Design services concerning urban and rail transport systems are provided to both investors and companies which perform contracts in a "design-build" formula. In the reporting period, the major buyers of services provided by BPK Poznań included PKP Polskie Linie Kolejowe S.A., Poznańskie Inwestycje Miejskie, Torpol S.A. and Urząd Miasta Brwinów [*the Municipal Council of Brwinów*].

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

10. Portfolio of orders

At the date of preparation of these financial statements, the net value of the Group's portfolio of orders for construction and assembly services was approx. PLN 606m and provided it with an ability to provide the services in the period 2016-2019. As for design services, the net value of the signed contracts scheduled for performance in the three quarters of 2016 is PLN 8m. The portfolio of orders for the supply of materials and equipment in subsequent quarters of 2016 is worth PLN 6.6m (net).

Contracts underway whose individual net value exceeds PLN 10,000 thousand:

- Construction of the double track 400 kV Koźienice – Otarzew. Net value attributable to ZUE is PLN 469,000 thousand;
- Maintenance and repair of tram infrastructure in Cracow in the period 2015 – 2018. Net value attributable to ZUE: PLN 42,345 thousand;
- Design and completion of construction works on the Cracow – Medyka – state border railway line, 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, Cracow – Rzeszów section, stage III.” Net value attributable to ZUE: PLN 135,564 thousand;
- Modernisation of E 30 Cracow Medyka railway line, Biadoliny – Tarnów section. Net value attributable to ZUE: PLN 45,322 thousand;
- Upgrade of the track no. 2 of the railway line no. 131 on the Tarnowskie Góry – Kalety section, reconstruction of the Baronów station and the reconstruction of 18 crossovers at the Tarnowskie Góry station, as part of the following project: “Upgrade of the Chorzów Batory - Tczew railway line no. 131, the Bydgoszcz Główna - Zduńska Wola - Chorzów Batory section.” Net value attributable to ZUE: PLN 38,416 thousand;
- Upgrade of the railway line no. 273 on the Głogów - Zielona Góra - Rzepin - Dolna Odra section. Reconstruction of tracks, platforms and viaduct in the Zielona Góra station. Net value attributable to ZUE with supplementary works: PLN 27,193 thousand;
- Design and completion of construction works on the Cracow – Medyka – state border railway line, 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, Cracow – Rzeszów section, stage III” Tender 1.3, No. IRZRG-216-04/10 POIiŚ 7.1-30-1.3 Reconstruction of the Tarnów - Mościce station (72.8-74.6 km). Net value attributable to ZUE: PLN 21,882 thousand;
- Design and completion of construction works as part of the following project: “Upgrade of the line no. 20 in the PKP Warszawa Gdańska station in connection with line E65 and Dworzec Gdański A17 subway station, stage II” as part of the following project: “Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section).” Net value attributable to ZUE: PLN 17,741 thousand;
- Conversion of a jointed track into a continuous welded track, tracks no. 1 and 2 from 105,000 km to 124,000 km on the 014 Łódź Kaliska – Tulipce line. Net value attributable to ZUE: PLN 10,000 thousand;
- Strengthening of the substructure on the line no. 139 Katowice – Zwardoń, tracks no. 1 and 2, section from 10,300 km to 25,360 km in the selected locations, and on the line no. 93 Trzebinia – Zebrzydowice, section from 62,260 km to 68,780 km in the selected locations, plus the accompanying works and services provided in connection with Substructure Repair Train with the use of AHM-800R formation rehabilitation machine, RM80 ballast cleaning machine and 20 hopper cars of type 426 Vb, representing the potential of the Contracting Authority - Zakład Maszyn Torowych w Krakowie. Net value attributable to ZUE: PLN 25,595 thousand;
- Construction works relating to the replacement of track structure with accompanying works on the Kluczbork - Poznań railway line no. 272, the Poznań Starołęka station, the Poznań Starołęka - Poznań Główny route, the Poznań Główny station, track no. 1 and 2, between 194,638 km and 200,524 km as part of the following project: “Structure replacement with accompanying works on the Kluczbork - Poznań railway line no. 272, the Kórnik - Poznań Główny section, and reconstruction of steel bridge on the Warta river at the Poznań Starołęka station at 196,254 km. Net value attributable to ZUE: PLN 26,400 thousand.
- Upgrade of the railway line no. 62 on the Dąbrowa Górnicza Strzemieszyce – Sosnowiec Dańdówka section as part of the following project: “Services in the railway lines no. 62 and 660 on the Tunel – Bukowno – Sosnowiec Płd section.” Net value attributable to ZUE: PLN 12,447 thousand.

At the date of publication of these financial statements, ZUE learnt of the selection of the most economically advantageous tender in the total amount of PLN 28m.

A smaller number of construction and design contracts performed on the infrastructure market is a result of the final settlements of the contracts performed under the previous EU perspective and waiting for the new contracts

financed from the EU perspective for the years 2014-2020. The Group companies participate in tenders both in Poland and abroad. The Group is interested in winning contracts on the EU markets.

11. Major events in the reporting period

On 8 January 2016, the Company learnt of the Company's submission of the lowest price tender in the tender procedure for "Completion of construction works relating to the replacement of track structure with accompanying works on the Kluczbork - Poznań railway line no. 272, the Poznań Starołęka station, the Poznań Starołęka - Poznań Główny route, the Poznań Główny station, track no. 1 and 2, between 194,638 km and 200,524 km as part of the following project: "Structure replacement with accompanying works on the Kluczbork - Poznań railway line no. 272, the Kórnik - Poznań Główny section, and reconstruction of steel bridge on the Warta river at the Poznań Starołęka station at 196,254 km" (the "Tender"). Contracting Authority: PKP Polskie Linie Kolejowe S.A. (PKP PLK). Net value of the tender submitted by the Company: PLN 26.4m. Gross value of the tender submitted by the Company: PLN 32.5m. Completion date: 31 December 2016.

On 29 January 2016, the Company learnt from PKP PLK about the exclusion of the Company from the tender procedure for procedural reasons and the selection of a tender submitted by a bidder other than the Company. Following the Issuer's appeal of 5 February 2016 against the abovementioned decision of PKP PLK, the Company learnt from PKP PLK that the selection by the Contracting Authority of a tender on 29 January 2016 had been cancelled after a well-grounded appeal had been lodged by the Issuer. On 8 February 2016, the Company received a notice from a tender participant; i.e. PORR Polska Construction S.A. According to the said notice, PORR informed the National Chamber of Appeals on 8 February 2016 about its joining the appeal proceedings on part of the Contracting Authority (PKP PLK S.A.) and filed a motion to dismiss the Issuer's appeal. In addition, PORR said it would object if the Issuer's complaint contained in its appeal was accepted by the Contracting Authority. On 11 February 2016, the Company received a notice from PKP PLK. According to the said notice, the tender submitted by the Issuer was selected as the most advantageous offer after the appeal lodged by the Issuer had been considered. On 23 February 2016, the Company learnt from PKP PLK that PORR Polska Construction S.A. had appealed against the Contracting Authority's selection of the most economically advantageous tender. On 7 March 2016, the National Chamber of Appeals dismissed the appeal lodged by PORR Polska Construction S.A. as unjustified and passed a relevant judgment.

Following the abovementioned events, on 18 March 2016, the Company and PKP PLK signed a contract for "Completion of construction works relating to the replacement of track structure with accompanying works on the Kluczbork - Poznań railway line no. 272, the Poznań Starołęka station, the Poznań Starołęka - Poznań Główny route, the Poznań Główny station, track no. 1 and 2, between 194,638 km and 200,524 km as part of the following project: "Structure replacement with accompanying works on the Kluczbork - Poznań railway line no. 272, the Kórnik - Poznań Główny section, and reconstruction of steel bridge on the Warta river at the Poznań Starołęka station at 196,254 km." Net value of the tender submitted by the Company: PLN 26.4m. Gross value of the tender submitted by the Company: PLN 32.5m. Completion date: 31 December 2016, however, according to the contract, certain stages will be completed earlier. **(Current reports 2/2016, 4/2016, 5/2016, 6/2016, 8/2016, 11/2016, 13/2016, 16/2016)**

Following the receipt on 9 February 2016 of the signed guarantee agreement entered into with ARCELORMITTAL POLAND S.A., the total net value of agreements concluded in the past 12 months between the companies comprising the ZUE Capital Group and ARCELORMITTAL amounted to PLN 23.1m. **(Current report 7/2016)**

Following the conclusion on 11 February 2016 of the railway line conversion contract between the Company and PKP Polskie Linie Kolejowe S.A., the total net value of contracts entered into since 29 October 2015 between the companies comprising the ZUE Capital Group and the companies comprising the PKP PLK Capital Group amounted to PLN 23.9m. **(Current report 9/2016)**

On 8 March 2016, ZUE and PKP PLK S.A. signed the contract for "Strengthening of the substructure on the line no. 139 Katowice – Zwardoń, tracks no. 1 and 2, section from 10,300 km to 25,360 km in the selected locations, and on the line no. 93 Trzebinia – Zebrzydowice, section from 62,260 km to 68,780 km in the selected locations, plus the accompanying works and services provided in connection with Substructure Repair Train with the use of AHM-800R formation rehabilitation machine, RM80 ballast cleaning machine and 20 hopper cars of type 426 Vb, representing the potential of the Contracting Authority - Zakład Maszyn Torowych w Krakowie." The Company informed of the submission of the lowest price tender in the current report 10/2016 and the selection of the

Company's tender as the most advantageous offer in the current report 12/2016. The contract net value: PLN 25.6m. The contract gross value: PLN 31.5m. Contract completion date: 31 December 2016. **(Current report 14/2016)**

On 14 March 2016, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating 2015 net profit of PLN 15.3m in the following manner:

- 1) A part of the net profit for 2015 of approx. PLN 7.6m would be paid as dividend (PLN 0.33 per share);
- 2) The remaining balance of approx. PLN 7.7m would be allocated to reserve funds. **(Current report 15/2016)**

12. Major events after the reporting period

On 1 April 2016, the consortium of the Company (Leader) and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. (Partner), and PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw signed an annex to the following contract: "Upgrade of the track no. 2 of the railway line no. 131 on the Tarnowskie Góry – Kalety section, reconstruction of the Baronów station and the reconstruction of 18 crossovers at the Tarnowskie Góry station," as part of the following project: "Upgrade of the Chorzów Batory - Tczew railway line no. 131, the Bydgoszcz Główna - Zduńska Wola - Chorzów Batory section" (the "Contract"). The Company informed of the Contract conclusion in the current report 86/2015 of 30 July 2015. Under the Annex, the deadline for the Contract performance was extended until 30 April 2016. The Annex also dealt with a change of deadlines for the completion of milestones under the Contract. The remaining terms of the Contract did not change. **(Current report 17/2016)**

Following the receipt on 15 April 2016 of the construction contract signed by the consortium of the Company and Krakowskie Zakłady Automatyki S.A. with registered office in Cracow, and PKP PLK for the upgrade of the railway line on the Dąbrowa Górnicza Strzemieszyce – Sosnowiec Dańdówka section, the total net value of contracts entered into since 12 February 2016 (except for the major contracts referred to by the Issuer in the current reports 14/2016 and 16/2016) between the companies comprising the ZUE Capital Group and the companies comprising the PKP PLK Capital Group amounted to PLN 24.5m. **(Current report 18/2016)**

On 18 April 2016, the cooperation rules were set out between the Company, BPK Poznań (subsidiary) and Generali Towarzystwo Ubezpieczeń S.A. (Generali TU). The said rules related to the provision of project-related bonding products. The said bonding products would be provided by Generali TU until the end of March 2017, at the request of the Company and BPK, to the beneficiaries specified by the companies. The maximum limit for the bonding products provided by Generali TU at the request of the Company or BPK Poznań was set at PLN 42.1m and the maximum individual limits to be used by individual companies were as follows: the Company – up to PLN 42.1m and BPK Poznań – up to PLN 1m. **(Current report 19/2016)**

On 25 April 2016, the Company informed about a positive opinion of the Company's Supervisory Board about the Management Board's proposal concerning the distribution of 2015 profit. **(Current report 20/2016)**

On 27 April 2016, the Company published the preliminary financial results of the Company and the Group for Q1 2016. **(Current report 21/2016)**

13. Other events

On 22 January 2016, the Extraordinary Shareholders Meeting of RTI resolved to increase the share capital of RTI from PLN 50,000 to PLN 225,000 through the creation of 3,500 new shares with a par value of PLN 50 each. All the new shares of the total value of PLN 175,000 were acquired by the existing Shareholders (including ZUE) proportionally to the shares already held by them and paid up in cash in the total amount of PLN 175,000. ZUE's contribution was paid up through the set-off of the Company's claims relating to loans granted to RTI. The increase of the share capital of RTI was entered in the National Court Register on 31 March 2016.

14. Bonds and guarantees

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

The value of unused bond lines at the end of the first quarter of 2016 was more than PLN 268.6m and EUR 12.5m.

ZUE S.A. is the parent company of the Group and, if needed, guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the guarantees as at 31 March 2016 was PLN 12.2m.

At the end of the first quarter of 2016, the value of guarantees provided to secure sales transactions entered into by subsidiaries was PLN 15,000 thousand and EUR 11 thousand. In addition, a corporate guarantee was given up to EUR 500 thousand.

As part of their operations, the Group companies are provided by their subcontractors with performance bonds and defects liability bonds in the form of bonds and guarantees provided by banks and insurance companies or bills of exchange. They were presented in the financial statements as contingent assets whose value as at 31 March 2016 was PLN 28,054 thousand.

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

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

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

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

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

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

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

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

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

- **Higher fees charged by subcontractors**

When executing its contracts, the Group subcontracts certain construction and assembly tasks. Changing prices of raw materials and liquid fuels contribute to the growth of risk of estimating the costs incurred by subcontractors and directly influence the price of services provided by subcontractors. This has a negative impact on the Group's financial results.

- **Unstable EUR/PLN exchange rate**

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

- **Outcome of court proceedings**

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

16. Unusual factors and events with significant influence on results

No unusual factors or events occurred in the reporting period.

17. Risks believed by the Group to have an influence on its results in subsequent periods

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

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

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

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

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

Another risk has occurred in the past years and is related to a loss of financial liquidity by other entities operating in the same sector as the Company. This may have a negative influence on the Company's financial results.

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

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

- **Risk related to joint and several liability to subcontractors and contracting authority**

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

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

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

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

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

- **Risk related to logistics**

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

- **Risk related to bankruptcy of counterparties**

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

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

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

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

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

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

ZUE participates in public tenders and includes target contracts in its financial plans. A risk that a decision will be unfavourable or the tender will be cancelled by a contracting authority cannot be excluded. In addition, the announcing of tenders or awarding contracts by contracting authorities may be delayed. Such circumstances could have a negative impact on the Company's financial results.

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

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

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

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

- **Interest rate risk**

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

- **Risk related to weather conditions**

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

- **Risk related to greater employments costs**

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

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

18. Notes on seasonal and cyclical nature of the Capital Group's operations

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

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

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

To generate revenue, the Group undertakes marketing activities aimed at the preparation of tenders. However, a long procedure of putting contracts out for tender and awarding contracts may have an impact on a precise planning of sales revenue.

19. Strategic objectives

The Group's strategic objectives include:

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

The main strategic objective in 2016-2020 is to take a maximum advantage of the current EU perspective.

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

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

Corporate information

20. Governing bodies of ZUE

Composition of the Parent Company's governing and supervisory bodies at the date of the financial statements' approval:

Management Board:

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

Supervisory Board:

Mariusz Szubra	Supervisory Board Chairman
Bogusław Lipiński	Supervisory Board Member
Magdalena Lis	Supervisory Board Member
Piotr Korzeniowski	Supervisory Board Member
Michał Lis	Supervisory Board Member

21. Share capital structure

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

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

22. Treasury shares

At the date of publication of these financial statements, the Company holds 264,652 own shares. The shares were acquired by the Company in 2015 as part of the buy-back of shares from the employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. which merged with ZUE S.A.

The shares were bought back by the Company on the basis of the Resolution no. 4 passed by the Extraordinary Shareholders Meeting of ZUE on 8 December 2014 authorising the Company's Management Board to buy back own shares.

23. Shareholding structure

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

Shareholder	At the date of publication of this quarterly report; i.e. 29 April 2016		At the date of publication of previous quarterly report; i.e. 13 November 2015	
	Number of shares/votes	% of the share capital/total number of votes	Number of shares/votes	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
METLIFE OFE *	1,400,000**	6.08	1,400,000**	6.08
PKO Bankowy OFE	1,500,000***	6.51	1,500,000***	6.51
Other	5,729,763****	24.88	5,729,763****	24.88
Total	23,030,083	100	23,030,083	100

* Previously Amplico OFE.

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

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

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

24. Shares and powers of members of the Issuer's management and supervisory bodies

Name	Position	Number of shares/votes at 29 April 2016	% of the share capital/total number of votes	Changes in shareholding since the publication of the last quarterly report; i.e. 13 November 2015
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 Member	7,706	0.03	None
Magdalena Lis	Supervisory Board Member	7,545	0.03	Purchase of 140 shares
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 and supervisory bodies did not hold any ZUE shares at this report publication date.

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

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

No events significant for the assessment of the Issuer's position occurred in the reporting period.

26. Issue and redemption of debt and equity securities

During the reporting period, no company comprising the Capital Group issued or redeemed any debt securities. During the reporting period, no company comprising the Capital Group redeemed any equity securities.

27. Information on dividend

On 14 March 2016, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating 2015 net profit of PLN 15.3m in the following manner:

- 1) A part of the net profit for 2015 of approx. PLN 7.6m would be paid as dividend (PLN 0.33 per share);
- 2) The remaining balance of approx. PLN 7.7m would be allocated to reserve funds.

The Company's Supervisory Board issued a positive opinion about the Management Board's proposal concerning the distribution of 2015 profit. The final decision concerning the allocation of 2015 net profit will be made by the Ordinary General Meeting of ZUE S.A. on 25 May 2016.

Financial information

28. Discussion of financial results

Analysis of the Group's and the Company's financial results reported at the end of the first quarter of 2016

The Group reported revenue of PLN 34,575 thousand in the first quarter of 2016 – down by 47.1% compared to revenue reported in the analogous period of 2015. The Company's revenue was PLN 27,735 thousand and decreased by 57.3% when compared with the first quarter of 2015. Lower revenue was a result of a slowdown on the domestic rail and urban infrastructure market and delayed selection of winning tenders. Lengthy tender procedures for big rail contracts accompanied by tender procedures for small contracts led to a greater fragmentation of the portfolio of orders.

ZUE began to perform the contracts won in 2016 in March and April 2016. Thus, their performance did not have any material influence on the volume of sales in the reporting period.

In Q1 2016, both the Group and the Company reported negative profit results:

	Capital Group (PLN '000)	ZUE (PLN '000)
Gross profit (loss) on sales	-677	-1,052
EBIT	-4,260	-3,629
EBITDA	-1,883	-1,410
Pre-tax profit (loss)	-4,164	-3,428
Net profit (loss)	-3,503	-2,756

Other operating income reported by ZUE for Q1 2016 was PLN 2,017 thousand. The figure was mainly influenced by a release of the provision created in 2012 for the risk relating to the final contract settlement in connection with the agreement between ZUE (legal successor of Przedsiębiorstwo Robót Komunikacyjnych S.A.) and Przedsiębiorstwo Komunikacji Miejskiej in Tychy (PKM).

ZUE's general and administrative expenses in the first quarter of 2016 stood at PLN 4,192 thousand – down by 6.7% compared to general and administrative expenses reported for Q1 2015. General and administrative expenses reported by the Group for the period 1 January 2016 – 31 March 2016 amounted to PLN 5,182 thousand and increased by 2.5% over the analogous figure reported for Q1 2015 after Railway gft had been included in the Group.

Apart from low revenue, the results of the Group and the Company were influenced by the Company's budget policy aimed at minimizing potential risks. According to the abovementioned policy, the profitability of new contracts is measured as zero until their budgets are verified.

Sales activity conducted by Railway gft generated a net loss of PLN -559 thousand in the first quarter of 2016 (gross profit of PLN 149 thousand). However, like construction services provided by ZUE, sales activity is strongly dependant on the entire rail and urban infrastructure market.

Design activity conducted by BPK Poznań is still being restructured and the segment is building the portfolio of orders for subsequent years. A positive aspect is a gross profit of PLN 274 thousand reported at the end of Q1 2016 by design segment. BPK Poznań ended the first quarter of 2016 with a net loss of PLN 150 thousand.

The Group's total assets and liabilities at 31 March 2016 stood at PLN 360,204 thousand and decreased by PLN 15.0% compared to the analogous figure reported at the end of 2015. The Company's total assets and liabilities amounted to PLN 346,260 thousand – down by 15.2% compared to the analogous figure reported at the end of 2015.

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

- 1) Current assets (separate accounts):
 - Decrease by PLN 33,149 thousand in trade and other receivables as a result of the final settlement of construction contracts completed at the end of 2015; and
 - Decrease by PLN 28,762 thousand in cash and cash equivalents as a result of the repayment of liabilities and financing of contracts at the early stage of performance.
- 2) Current payables (separate accounts):
 - Decrease by PLN 44,389 thousand in trade and other payables;
 - Decrease by PLN 6,038 thousand in liabilities under employee benefits; and
 - Decrease by PLN 4,280 thousand in retentions on construction contracts as a result of the settlement of construction contracts.

At 31 March 2016, the value of unused credit limits at the Group was PLN 128,200 thousand.

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

The Company did not publish any forecast 2016 financial results.

30. Trade and other receivables

	(PLN '000)	
	As at 31-03-2016	As at 31-12-2015
Trade receivables	34,338	72,225
Write-downs of trade receivables	-14,160	-14,282
Receivables from the state budget other than corporate income tax	1,922	714
Receivables under contracts (measurement)	18,584	15,921
Advance payments	3,109	3,005
Other receivables	237	256
Total trade and other receivables	44,030	77,839

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

	(PLN '000)
	As at
	31-03-2016
Counterparty A	4,860
Counterparty B	4,460
Counterparty C	4,241
	13,561

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated and by cooperation with financial institutions. Therefore, the Management Board of the Company believes there is no need to create additional allowances.

31. Trade and other payables

	(PLN '000)	
	As at	As at
	31-03-2016	31-12-2014
Trade payables	10,869	43,424
Liabilities to the state budget other than corporate income tax	1,492	5,705
Accruals	52,784	53,296
Liabilities under contracts (measurement)	7,459	15,106
Other payables	250	199
Total trade and other payables	72,854	117,730

Accruals include, in particular, provisions for the costs of subcontractors and provisions for claims under contracts.

32. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the three months ended 31 March 2016 or 31 March 2015.

33. Investments in non-current assets

By the report preparation date, the Group made a number of investments in non-current assets of the total value of PLN 912 thousand, including the investments of the total value of PLN 523 thousand made in the first quarter of 2016.

The investments made by the Group include:

- Cars, including specialist cars; and

- Complete overhauls of dump cars.

34. Segment reporting

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

- Construction;
- Design; and
- Sales.

These operating segments jointly meet the following rules:

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

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

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

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

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

Operating segments' results for Q1 2016:

	(PLN '000)				
	Construction	Sales	Design	Exclusions	Total
Revenue	27,734	5,883	2,006	-1,048	34,575
including:					
Revenue from external customers	27,548	5,186	1,765	76	34,575
Inter-segment revenues	187	697	241	-1,125	0
Gross profit	-1,051	149	274	-49	-677
Financial income / expenses	201	-93	-12	0	96
Interest received	524	0	0	0	524
Interest paid	-96	-39	-4	0	-139
Pre-tax profit	-3,427	-553	-137	-47	-4,164
Corporate income tax	-671	6	13	-9	-661
Net profit	-2,756	-559	-150	-38	-3,503
Depreciation and amortisation	2,219	80	23	55	2,377
Property, plant and equipment	76,785	18	151	3,113	80,067
Non-current assets	140,488	266	1,346	-1,164	140,936
Total assets	346,258	13,915	6,498	-6,467	360,204

35. Transactions with related entities

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

(PLN '000)

	Receivables		Payables	
	As at		As at	
	31-03-2016	31-12-2015	31-03-2016	31-12-2015
RTI	0	1	0	0
RTI Germany	0	0	0	19
Wiesław Nowak	0	0	0	0
Total	0	1	0	19

	Revenue		Purchases	
	Period ended		Period ended	
	31-03-2016	31-03-2015	31-03-2016	31-03-2015
RTI	1	3	0	0
RTI Germany	0	0	113	403
Wiesław Nowak	0	0	0	0
Total	1	3	113	403

	Advanced loans		Financial income (interest)	
	As at		Period ended	
	31-03-2016	31-12-2015	31-03-2016	31-03-2015
RTI	0	158	0	1
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	158	0	1

	Received loans		Financial expenses (interest)	
	As at		Period ended	
	31-03-2016	31-12-2015	31-03-2016	31-03-2015
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	16
Total	0	0	0	16

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

In the first quarter of 2016, RTI leased business establishments from ZUE on the basis of the lease of 31 December 2015.

On 26 January 2016, loans plus interest were repaid by RTI. Section II.7 contains the details of the transaction.

In the first quarter of 2016, RTI Germany provided market research services for future projects to ZUE.

36. Court proceedings

At the date of preparation of this report, the Group is a party to the pending court proceedings concerning the Group's claims and liabilities of the total value of PLN 36,778,732.72; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 2,517,120.14 and the total value of the proceedings concerning claims is PLN 34,261,612.58.

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

The biggest pending court proceeding concerning liabilities:

Case concerning the following project: "Construction of a tramway under the project KST N-S Phase II A Grzegórzeckie Roundabout – Kotlarski Bridge – Klimeckiego Street – Lipska Street, together with the reconstruction of the roadway and construction of Kuklińskiego Street, as well as the construction of a flyover along Nowohucka and Powstańców Wielkopolskich Streets in Cracow" – conclusion of the case.

On 6 April 2016, a settlement was reached before the District Court in Cracow, IX Commercial Division (case no. IX GC 5/14) whereby Strabag sp. z o.o. and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol Sp. z o.o. (the Defendants) would pay PLN 1,915,000.00 (PLN 1,777,790.00 and PLN 137,210.00, respectively) to MPK of Cracow (the Petitioner). As for the Company, the said settlement contained the statement made by Gmina Miejska Kraków – Zarząd Infrastruktury Komunalnej i Transportu and Miejskie Przedsiębiorstwo Komunikacyjne S.A. of Cracow according to which any and all claims of the Petitioner against ZUE S.A. relating to the lawsuit before the District Court in Cracow (case no. IX GC 5/14) had been satisfied. In addition, Gmina Miejska Kraków – Zarząd Infrastruktury Komunalnej i Transportu and Miejskie Przedsiębiorstwo Komunikacyjne S.A. of Cracow stated they irrevocably waived any claims against ZUE S.A. of Cracow relating to the performance of the Master Contract and the Additional Contract including, in particular, the claims relating to liability in tort and contract and the claims under guarantee and warranty (except for the claims relating to the defects the Company was solely responsible for detected during warranty inspections and described in relevant protocols and the defects the Company was solely liable for that were covered by warranty and would occur after the date of the settlement). The Master Contract is the contract no. FZ/FU/Rem-22/10 of 20.01.2010 signed after the unlimited tender for the following project: "Construction of a tramway under the project KST N-S Phase II A Grzegórzeckie Roundabout – Kotlarski Bridge – Klimeckiego Street – Lipska Street, together with the reconstruction of the roadway and construction of Kuklińskiego Street, as well as the construction of a flyover along Nowohucka and Powstańców Wielkopolskich Streets in Cracow" and the Additional Contract is the contract no. FZ/FU/Rem-369/10 of 04.10.2010 concluded on the basis of Art. 67.1.6 of the Polish Public Procurement Act. The Additional Contract provided for the stabilization of subsoil and the replacement of soil in the Nowohucka and Powstańców Wielkopolskich Streets as well as the Kuklińskiego and Lipska Streets (service roads) together with tram terminus. Likewise, the Petitioners waived their claims against other Defendants. As for Strabag sp. z o.o. and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol Sp. z o.o., however, the claims would be effectively following the companies' payment of the amounts specified by the settlement. As for Eiffage Polska Koleje Sp. z o.o., the Petitioners confirmed the company had not taken part in the performance of the Master Contract or the Additional Contract and, consequently, had no claims against Eiffage Polska Koleje Sp. z o.o. relating to the performance thereof. The Parties waived the costs of the proceedings.

The District Court in Cracow, IX Commercial Division, decided on 6 April 2016 that the settlement was compliant with the law.

Case concerning the following project: "Construction of the Franowo tram depot in Poznań."

On 17 October 2014, the Company received a lawsuit from Elektrobudowa S.A. of Katowice for PLN 1,712,208.37 plus interest from 26 July 2014 until the date of payment and the refund of the costs of court proceedings. Elektrobudowa S.A. maintained that the Company had groundlessly drawn on the guarantee provided to it by the petitioner – the consortium partner. Both the Company and Elektrobudowa S.A. were involved in completion of the project named "Construction of the Franowo tram depot in Poznań" with MPK w Poznaniu sp. z o.o. as the Contracting Authority.

The Company drew on the said guarantee because contractual penalties had been charged by the Contracting Authority for the second stage of the said project. The contractual penalties equalled the subject of the dispute and the petitioner failed to provide further security to the Company even though it was obliged to do so. In addition, the consortium agreement read that each consortium member was obliged to remedy a damage suffered by the other party as a result of its actions or omissions and such a damage was caused to the Company's property after the Contracting Authority had lodged its claim against both consortium members. This was another reason for the Company to draw on the guarantee. The consortium agreement also read that settlements should be made between the Parties on the date the claims were lodged by the Contracting Authority proportionally to the consortium members' share in the project (in the case of a dispute concerning the consortium members' liability for the situation). This does not prevent the Court from making other decisions. The liability for the contractual penalties remains disputable.

A number of pleadings were exchanged and new trial dates were scheduled.

The biggest pending court proceeding concerning claims:

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

On 14 August 2014, the Petitioner (BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) filed a lawsuit against the Defendant (PKP Polskie Linie Kolejowe S.A.). The Petitioner sued the Defendant for the contractual penalty of PLN 72,835,010.99 plus interest from 18 August 2012 until payment (with PLN 18,521,943.30 plus interest from 18 August 2012 until payment attributable to the Company) for the Defendant's delay in the handover of the Construction Site. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POIiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding." Under the Contract, the Contracting Authority was obliged to provide the Contractor with an access to the entire construction site and the right to use it on the dates as specified in an appendix to the Contract. In case of delay through the fault of the Contracting Authority, the Contractor was authorised to charge the contractual penalties for each day of delay at the rate as specified in an appendix to the Contract. The Contracting Authority failed to provide an access to all parts of the Construction Site by the dates specified in the Contract. The Defendant questioned the claims made by the Petitioner both in terms of their amount and legitimacy. In addition, the Defendant filed a motion to dismiss the action and award the Defendant costs of the proceedings, including the cost of legal representation, according to the list of costs submitted during the proceedings. The Defendant filed a claim that the contractual fee charged by the Petitioner was too high in case the said motion for the dismissal was rejected.

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

On 10 February 2015, the Company received a copy of an application for conciliation proceedings (the "Application") filed by PKP Polskie Linie Kolejowe S.A. of Warsaw ("PKP PLK") and information about the Court hearing scheduled for 17 March 2015. In their Application, PKP PLK asked the consortium of:

- 1) Bilfinger Infrastructure S.A of Warsaw (Leader);
- 2) ZUE S.A. of Cracow (Partner);
- 3) Przedsiębiorstwo Budowy Kopalń PEBEKA S.A of Lubin (Partner);
- 4) Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. (Partner); and
- 5) Kolejowe Zakłady Automatyki Katowice S.A. (Partner);

(hereinafter jointly referred to as the "Participants" or the "Contractor") to take part in the conciliation proceedings concerning the Defendant's payment, on a joint and several basis, of PLN 27,963,053.62 plus statutory interest (the "Claim") to PKP PLK for the Defendant's delay in the completion of the construction works concerning 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 works 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 "Contract"). The Court hearing was held on 17 March 2015 but no agreement was reached between

PKP PLK and the consortium. The Company believed it had properly performed its services and a part of the Claim of PKP PLK attributable to the Company was groundless.

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

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

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

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

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

37. **Contingent assets and contingent liabilities**

Contingent assets

	(PLN)	
	As at	As at
	31-03-2016	31-12-2015
Bonds and guarantees	24,092	26,509
Bills of exchange	3,962	3,962
Sureties	0	0
Mortgages	0	0
Total	28,054	30,471

Contingent assets resulting from bonds and guarantees include the bonds and guarantees provided by banks and insurance companies to the Group companies to secure the Group's claims relating to subcontracted construction services.

Contingent liabilities

	As at	(PLN) As at
	31-03-2016	31-12-2015
Bonds and guarantees	181,409	176,915
Sureties	12,207	12,206
Bills of exchange	99,267	149,587
Mortgages	51,018	51,017
Pledges	5,500	19,207
Total	349,401	408,932

The contingent liabilities resulting from bonds and guarantees include, in particular, bid bonds, performance bonds and defects liability bonds provided by insurance companies and banks to the Group's counterparties to secure their claims against the Group, mainly under construction contracts. Insurance companies and banks have recourse against the Group.

At 31 March 2016, the registered pledge of PLN 5.5m is a security for the Agreement no. 07/067/15/Z/OB of 28 August 2015 with mBank S.A.

The liabilities to banks and strategic clients are secured by bills of exchange. Mortgages are additional security for agreements with banks.

Approval of the abbreviated consolidated financial statements

These abbreviated consolidated financial statements for the three months ended 31 March 2016 were approved for publication by the Management Board of ZUE on 29 April 2016.

Wiesław Nowak – Management Board President

Jerzy Czeremuga – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-President

Anna Mroczek – Management Board Member

Maciej Nowak – Management Board Member

Cracow, 29 April 2016

III. SELECTED FINANCIAL DATA OF ZUE S.A.

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 31 Mar 2016	Exchange rate on 31 Dec 2015	Exchange rate on 31 Mar 2015
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2684	4.2615	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	4.3559	4.1848	4.1489
"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	4.2684	4.2615	4.0890

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

	As at 31-03-2016		As at 31-12-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	140,488	32,914	140,377	32,941
Current assets	205,772	48,208	267,827	62,848
Total assets	346,260	81,122	408,204	95,789
Equity	212,855	49,868	215,611	50,595
Non-current liabilities	26,249	6,150	27,695	6,499
Current liabilities	107,156	25,104	164,898	38,695
Total equity and liabilities	346,260	81,122	408,204	95,789

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

	3 months ended 31-03-2016		3 months ended 31-03-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	27,735	6,367	64,899	15,642
Cost of sales	28,787	6,609	60,645	14,617
Gross profit (loss) on sales	-1,052	-242	4,254	1,025
Profit (loss) on operating activities	-3,629	-833	1,342	323
Gross profit (loss)	-3,428	-787	1,324	319
Net profit (loss) from continuing operations	-2,756	-633	1,069	258
Total comprehensive income	-2,756	-633	1,069	258

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

	3 months ended 31-03-2016		3 months ended 31-03-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-26,761	-6,144	-11,259	-2,714
Cash flows from investing activities	-400	-92	-4,124	-994
Cash flows from financing activities	-1,617	-371	-2,532	-610
Total net cash flows	-28,778	-6,607	-17,915	-4,318
Cash at the beginning of the period	169,795	39,844	71,116	16,685
Cash at the end of the period	141,033	33,041	53,220	13,015

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

Separate statement of comprehensive income

(PLN '000)

Continuing operations	3 months ended 31-03-2016	3 months ended 31-03-2015
Revenue	27,735	64,899
Cost of sales	28,787	60,645
Gross profit (loss) on sales	-1,052	4,254
General and administrative expenses	4,192	4,491
Other operating income	2,017	3,386
Other operating expenses	402	1,807
Operating profit (loss)	-3,629	1,342
Financial income	569	358
Financial expenses	368	376
Pre-tax profit (loss)	-3,428	1,324
Corporate income tax	-672	255
Net profit (loss) from continuing operations	-2,756	1,069
Net profit (loss)	-2,756	1,069
Other net comprehensive income		
Items that will not be reclassified subsequently to profit or loss:	0	0
Remeasurement of liabilities under employee benefits	0	0
Other total net comprehensive income	0	0
Total comprehensive income	-2,756	1,069
Weighted average number of shares	23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)	-0.12	0.05
Total comprehensive income (loss) per share (PLN)	-0.12	0.05

Separate statement of financial position

(PLN '000)

	As at 31-03-2016	As at 31-12-2015
ASSETS		
Non-current assets		
Property, plant and equipment	76,785	77,985
Investment property	7,701	7,822
Intangible assets	9,492	9,638
Goodwill	31,172	31,172
Investments in subordinates	328	239
Advance payments for investments in subordinates	0	0
Long-term receivables	0	0
Retentions on construction contracts	6,076	5,288
Deferred tax assets	8,934	8,233
Other assets	0	0
Total non-current assets	140,488	140,377
Current assets		
Inventories	18,229	18,368
Trade and other receivables	40,740	73,889
Retentions on construction contracts	989	602
Current tax assets	3,966	3,954
Other financial receivables	0	0
Other assets	815	1,061
Loans advanced	0	158
Cash and cash equivalents	141,033	169,795
Total current assets	205,772	267,827
Total assets	346,260	408,204

	As at 31-03-2016	As at 31-12-2015
EQUITY AND LIABILITIES		
Equity		
Share capital	5,758	5,758
Share premium account	93,837	93,837
Treasury shares	-2,690	-2,690
Retained earnings	115,950	118,706
Total equity	212,855	215,611
Non-current liabilities		
Long-term bank borrowings and other debt instruments and other financing sources	9,885	11,155
Retentions on construction contracts	7,287	7,991
Other financial liabilities	0	0
Liabilities under employee benefits	697	697
Deferred tax liability	0	0
Long-term provisions	7,540	6,942
Deferred revenue	0	0
Other liabilities	840	910
Total non-current liabilities	26,249	27,695
Current liabilities		
Trade and other payables	67,992	112,381
Retentions on construction contracts	7,388	11,668
Short-term bank borrowings and other debt instruments and other financing sources	5,957	6,111
Other financial liabilities	37	37
Liabilities under employee benefits	15,909	21,947
Current tax liabilities	0	0
Short-term provisions	9,873	12,754
Total current liabilities	107,156	164,898
Total liabilities	133,405	192,593
Total equity and liabilities	346,260	408,204

Separate statement of changes in equity

(PLN '000)

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
As at	1 Jan 2016	5,758	93,837	-2,690	118,706	215,611
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) for the year		0	0	0	-2,756	-2,756
Other net comprehensive income		0	0	0	0	0
As at	31 Mar 2016	5,758	93,837	-2,690	115,950	212,855

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
As at	1 Jan 2015	5,758	93,837	0	103,369	202,964
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	-2,324	0	-2,324
Profit (loss) for the year		0	0	0	1,069	1,069
Other net comprehensive income		0	0	0	0	0
As at	31 Mar 2015	5,758	93,837	-2,324	104,438	201,709

Separate statement of cash flows

(PLN '000)

	3 months ended 31-03-2016	3 months ended 31-03-2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-3,428	1,324
Adjustments for:		
Depreciation and amortisation	2,219	2,148
Foreign exchange gains / (losses)	-16	-18
Interest and share in profit (dividends)	-429	-141
(Gain) / loss on disposal of investments	10	264
Accrued expenses under commission on loans	0	52
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit (loss) before changes in working capital	-1,644	3,629
Change in receivables and retentions on construction contracts	31,937	36,633
Change in inventories	139	-24,333
Change in provisions and liabilities under employee benefits	-8,321	-898
Change in retentions on construction contracts and liabilities, excluding borrowings, other debt instruments and other financing sources	-49,077	-27,621
Change in accrued expenses	246	294
Change in funds of limited availability	0	0
Other adjustments	0	0
Income tax paid / tax refund	-41	1,037
NET CASH FROM OPERATING ACTIVITIES	-26,761	-11,259
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	77	183
Purchase of property, plant and equipment and intangible assets	-1,075	-1,358
Investments in real property and intangible assets	0	0
Sale / (purchase) of financial assets in other entities	0	3
Sale / (purchase) of financial assets in subsidiaries	0	0
Purchase of financial assets available for sale	0	-2,324
Loans advanced	0	-900
Repayment of granted loans	74	0
Dividends received	0	0
Interest received	524	272
Settlement of financial instruments – expenses	0	0
Other cash provided by/(used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	-400	-4,124
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings and other debt instruments received	0	0
Repayment of borrowings and other debt instruments	0	-1,278

Decrease in finance lease liabilities	-1,522	-1,123
Interest paid	-95	-130
Other cash provided by / (used in) financing activities – dividends	0	-1
Net cash from issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	-1,617	-2,532
TOTAL NET CASH FLOWS	-28,778	-17,915
Net foreign exchange gains / (losses)	16	19
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	169,795	71,116
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	141,033	53,220

Notes to the Abbreviated Separate Financial Statements of ZUE S.A.

1. General information

Information about the Company

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

Composition of the Company's governing and supervisory bodies at the date of approval of these financial statements:

Management Board:

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

Supervisory Board:

Mariusz Szubra	Supervisory Board Chairman
Bogusław Lipiński	Supervisory Board Member
Magdalena Lis	Supervisory Board Member
Piotr Korzeniowski	Supervisory Board Member

Michał Lis

Supervisory Board Member

Functional and reporting currency

These financial statements have been prepared in Polish złoty (PLN). Polish złoty is the Group's functional and reporting currency. The data in the financial statements has been disclosed in Polish złoty, unless it has been provided in greater detail in relevant circumstances.

2. Use of International Financial Reporting Standards

Statement of compliance

The quarterly separate financial statements have been drawn up in accordance with the requirements of the International Financial Reporting Standards applicable as at 31 March 2016 as endorsed by the European Union.

The quarterly separate financial statements for the three months ended 31 March 2016 have been prepared according to the requirements binding on public companies.

Amendments to standards and interpretations used for the first time in 2016 financial statements of the Company

The following amendments to the standards and interpretations published by the International Accounting Standards Board (IASB) and approved of by the European Union come into force for the first time in the financial statements of the Company for 2016:

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations – approved of in the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure Initiative – approved of in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation – approved of in the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Agriculture: Bearer Plants – approved of in the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 19 "Employee Benefits"** – Specific Benefit Programmes: Employee Benefits, approved of in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- **Amendments to IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements - approved of in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to various standards "Improvements to IFRSs (2010-2012 Cycle)"** – made as part of annual improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at the resolution of inconsistencies and specification of vocabulary, approved of in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- **Amendments to various standards "Improvements to IFRSs (2012-2014 Cycle)"** – made as part of annual improvements to IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) aimed mainly at the resolution of inconsistencies and specification of vocabulary, approved of in the EU on 15 December 2015 (effective for annual periods beginning on or after 1 January 2016).

The foregoing amendments to the standards and interpretations did not have any material impact of the financial statements of the Company for 2016.

Amendments to the standards published by the IASB and approved of by the EU but not yet effective

No amendments to the standards, which had been published by the IASB and approved of by the EU but had not yet come into force, occurred while approving these financial statements.

New standards and amendments to the standards published by the IASB but not yet approved for use in the EU

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

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided not to approve this standard for use in the EU until the final version of the IFRS 14 is published;
- **IFRS 15 “Revenue from Contracts with Customers”** and subsequent amendments (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 10 “Consolidated Financial Statements,” IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and subsequent amendments (effective date was postponed until the completion of research on equity method);
- **Amendments to IAS 7 “Statement of Cash Flows”** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 “Income Taxes”** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

According to the estimates by the Company, these new standards or amendments to the standards would not have any significant impact on the financial statements if used by the Company at the end of the reporting period.

Hedge accounting for the portfolio of financial assets and financial liabilities, the rules of which have not been approved for use in the EU, is still beyond the regulations approved of by the EU.

According to the estimates by the Company, hedge accounting for the portfolio of financial assets or financial liabilities according to IAS 39 *Financial Instruments: Recognition and Measurement* would not have any significant impact on the financial statements if used by the Group at the end of the reporting period.

3. Key accounting principles

Going concern

The quarterly separate financial statements have been prepared assuming that the Company will continue in operational existence for the foreseeable future. No going concern risks exist at this report preparation date.

Preparation basis

When preparing these quarterly separate financial statements, the Company applied the regulations set out in IAS 34 "Interim Financial Reporting" and used the same principles for both current and comparable period.

Comparability of financial data

No significant changes to the presentation of financial data in the comparable periods were made.

Applied accounting principles

These quarterly separate financial statements for the three months ended 31 March 2016 have been prepared according to the same accounting principles and measurement methods as those used in the last annual financial statements of the Company prepared as at 31 December 2015. The financial statements of the Company for the financial year ended 31 December 2015 contain a detailed description of the accounting principles applied by the Company.

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

4. Revisions to estimates

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

Change in provisions

	(PLN '000)					
Provisions	01-01- 2016	Created	Used	Released	Reclassified	31-03- 2016
Long-term provisions:	7,639	57	12	101	-654	8,237
Provisions for employee benefits	697	0	0	0	0	697
Provisions for warranty claims	6,942	57	12	101	-654	7,540
Other provisions	0	0	0	0	0	0
Short-term provisions:	29,131	2,713	8,463	3,309	654	19,418
Provisions for employee benefits	16,377	2,689	8,390	1,131	0	9,545
Provisions for warranty claims	9,191	24	73	19	654	8,469
Provision for loss on contracts	1,996	0	0	659	0	1,337
Other provisions	1,567	0	0	1,500	0	67
Total:	36,770	2,770	8,475	3,410	0	27,655

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 and taking account of the subcontractors' liability for the scope of works they have been entrusted with. 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 overtime work. Apart from the provision for employee benefits, current liabilities under employee benefits include liabilities under salaries and social security premiums.

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

Deferred tax assets and liabilities

	(PLN '000)			
	01-01-2016	Created	Used	31-03-2016
Deferred tax assets	20,798	884	0	21,681
Deferred tax liability	12,565	183	0	12,747
Balance of assets and liabilities	8,233			8,934

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

5. Trade and other receivables

	(PLN '000)	
	As at 31-03-2016	As at 31-12-2015
Trade receivables	33,754	71,000
Write-downs of trade receivables	-14,046	-14,167
Receivables from the state budget other than corporate income tax	1,922	2
Receivables under contracts (measurement)	15,794	13,825
Advance payments	3,079	2,973
Other receivables	237	256
Total trade and other receivables	40,740	73,889

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

	(PLN '000)	
	As at 31-03-2016	
Counterparty A	4,860	4,860
Counterparty B	4,460	4,460
Counterparty C	4,241	4,241
Total	13,561	13,561

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated and by cooperation with financial institutions. Therefore, the Management Board of the Company believes there is no need to create additional allowances.

6. Trade and other payables

	As at 31-03-2016	(PLN '000) As at 31-12-2015
Trade payables	7,764	39,251
Liabilities to the state budget other than corporate income tax	1,371	5,447
Accruals	51,751	52,358
Liabilities under contracts (measurement)	6,984	14,346
Other payables	122	979
Total trade and other payables	67,992	112,381

Accruals include, in particular, provisions for the costs of subcontractors and provisions for claims under contracts.

7. Notes on seasonal and cyclical nature of the Company's operations

The entire construction and assembly industry the Company operates in is marked by the seasonality of production and sales. The seasonal and cyclical nature of the Company's operations has been described in detail in section II.18. of this report: "Notes on seasonal and cyclical nature of the Capital Group's operations."

8. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the three months ended 31 March 2016 or 31 March 2015.

9. Issue and redemption of debt and equity securities

During the reporting period, the Company did not issue or redeem any debt or equity securities.

10. Information on dividend

On 14 March 2016, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating 2015 net profit of PLN 15.3m in the following manner:

- 1) A part of the net profit for 2015 of approx. PLN 7.6m would be paid as dividend (PLN 0.33 per share);
- 2) The remaining balance of approx. PLN 7.7m would be allocated to reserve funds.

The Company's Supervisory Board issued a positive opinion about the Management Board's proposal concerning the distribution of 2015 profit. The final decision concerning the allocation of 2015 net profit will be made by the Ordinary General Meeting of ZUE S.A. on 25 May 2016.

11. Investments in non-current assets

By the report preparation date, the Company made a number of investments in non-current assets of the total value of PLN 906 thousand, including the investments of the total value of PLN 517 thousand made in the first quarter of 2016.

The investments made by the Group include:

- Cars, including specialist cars; and
- Complete overhauls of dump cars.

12. Segment reporting

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

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

13. Transactions with related entities

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

(PLN '000)

	Receivables		Payables	
	As at		As at	
	31-03-2016	31-12-2015	31-03-2016	31-12-2015
Railway GFT	3,149	4,435	788	40
BPK Poznań	181	9	1,763	2,253
RTI	0	1	0	0
RTI Germany	0	0	0	19
Wiesław Nowak	0	0	0	0
Total	3,330	4,445	2,551	2,312

	Revenue		Purchases	
	Period ended		Period ended	
	31-03-2016	31-03-2015	31-03-2016	31-03-2015
Railway GFT	119	28	770	0
BPK Poznań	224	0	242	206
RTI	1	3	0	0
RTI Germany	0	0	113	403
Wiesław Nowak	0	0	0	0
Total	344	31	1,125	609

	Advanced loans		Financial income (interest)	
	As at		As at	
	31-03-2016	31-12-2015	31-03-2016	31-03-2015
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	11
RTI	0	158	0	1
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	158	0	12

	Received loans		Financial expenses (interest)	
	As at		As at	
	31-03-2016	31-12-2015	31-03-2016	31-03-2015
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	0
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

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

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

- Sale of design services;
- Lease of rooms plus utilities and phone services; and
- Financial services.

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

- Purchase of materials used to build and repair tracks;
- Design services;
- Market research services; and
- Printing services.

In the first quarter of 2016, RTI leased business establishments from ZUE on the basis of the lease of 31 December 2015.

On 26 January 2016, loans plus interest were repaid by RTI. Section II.7 contains the details of the transaction.

In the first quarter of 2016, RTI Germany provided market research services for future projects to ZUE.

At the end of the first quarter of 2016, the value of guarantees provided to secure sales transactions entered into by subsidiaries was PLN 15,000 thousand and EUR 11 thousand. In addition, a corporate guarantee was given up to EUR 500 thousand.

14. Court proceedings

At the date of preparation of this report, ZUE S.A. is a party to the pending court proceedings concerning the Company's claims and liabilities of the total value of PLN 36,111,137.79; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 2,384,984.14 and the total value of the proceedings concerning claims is PLN 33,726,153.65.

The pending court proceedings are related to the Company's operating activities. The consolidated financial statements contain a detailed description thereof.

15. Contingent assets and contingent liabilities

Contingent assets

	As at 31-03-2016	(PLN '000) As at 31-03-2015
Bonds and guarantees	24,092	26,509
Bills of exchange	4,266	4,266
Sureties	0	0
Mortgages	0	0
Total	28,358	30,775

Contingent assets resulting from bonds and guarantees include the bonds and guarantees provided by banks and insurance companies to ZUE to secure the Company's claims relating to subcontracted construction services.

Contingent liabilities

	As at 31-03-2016	(PLN '000) As at 31-12-2015
Bonds and guarantees	175,772	171,290
Sureties	12,207	12,206
Bills of exchange	97,477	148,297
Mortgages	51,018	51,018
Pledges	0	13,706
Total	336,474	396,517

The contingent liabilities resulting from bonds and guarantees include, in particular, bid bonds, performance bonds and defects liability bonds provided by insurance companies and banks to the Company's counterparties to secure their claims against the Company, mainly under construction contracts and sales agreements. Insurance companies and banks have recourse against the Company.

Sureties secure the bonds and credit facilities provided to the Group companies by banks and insurance companies. The said bonds and credit facilities were guaranteed by ZUE as the parent company.

The pledge provided to BGŻ BNP PARIBAS S.A. to secure the revolving credit facility agreement no. WAR/2001/14/66/ CB of 19 November 2014 was removed on 19 February 2016 after the facility had been repaid.

The liabilities to banks and strategic clients are secured by bills of exchange. Mortgages are additional security for agreements with banks.

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

The financial statements have been presented by the
Management Board composed of:

Wiesław Nowak – Management Board President

Jerzy Czeremuga – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-
President

Anna Mroczek – Management Board Member

Maciej Nowak – Management Board Member

Cracow, 29 April 2016