



**CONSOLIDATED QUARTERLY REPORT  
FOR 9 MONTHS ENDED 30 SEPTEMBER 2016  
ZUE Capital Group**

**Cracow, 4 November 2016**

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**Contents of the consolidated quarterly report:**

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

Abbreviations and definitions:

ZUE, Company, Issuer	ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,757,520.75 paid up in full. Parent company of the ZUE Capital Group.
BPK Poznań	Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 5,866,600 paid up in full. Subsidiary of ZUE.
Railway gft	Railway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full. Subsidiary of ZUE.
RTI	Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 225,000 paid up in full. Subsidiary of ZUE.
RTI Germany	Railway Technology International Germany GmbH with registered office in 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 number 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 2000, no. 94, item 1037, as amended).

Share capital details as at 30 September 2016.

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**ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS  
FOR 9 MONTHS ENDED 30 SEPTEMBER 2016  
ZUE Capital Group**

**Cracow, 4 November 2016**

## I. SELECTED FINANCIAL INFORMATION OF THE GROUP

Rules for translating selected financial information into EUR:

Item	Exchange rate	Exchange rate on 30-09-2016	Exchange rate on 31-12-2015	Exchange rate on 30-09-2015
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.3120	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	4.3688	4.1848	4.1585
"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	4.3120	4.2615	4.2386

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

	As at 30-09-2016		As at 31-12-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	144,586	33,531	141,321	33,163
Current assets	236,600	54,870	282,224	66,226
<b>Total assets</b>	<b>381,186</b>	<b>88,401</b>	<b>423,545</b>	<b>99,389</b>
Equity	202,738	47,017	216,344	50,767
Non-current liabilities	28,672	6,649	29,203	6,853
Current liabilities	149,776	34,735	177,998	41,769
<b>Total equity and liabilities</b>	<b>381,186</b>	<b>88,401</b>	<b>423,545</b>	<b>99,389</b>

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

	9 months ended 30-09-2016		9 months ended 30-09-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	220,614	50,498	384,331	92,421
Cost of sales	215,697	49,372	354,419	85,228
<b>Gross profit (loss) on sales</b>	<b>4,917</b>	<b>1,125</b>	<b>29,912</b>	<b>7,193</b>
Profit (loss) on operating activities	-7,586	-1,736	10,733	2,581
Gross profit (loss)	-6,869	-1,572	10,150	2,441
<b>Net profit (loss) from continuing operations</b>	<b>-6,106</b>	<b>-1,398</b>	<b>7,302</b>	<b>1,756</b>

Total comprehensive income	-6,093	-1,395	7,430	1,787
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Key items of the consolidated statement of cash flows translated into EUR:

	9 months ended 30-09-2016		9 months ended 30-09-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-48,863	-11,185	-51,155	-12,301
Cash flows from investing activities	-6,151	-1,408	-5,108	-1,228
Cash flows from financing activities	-8,646	-1,979	-8,079	-1,943
<b>Total net cash flows</b>	<b>-63,660</b>	<b>-14,572</b>	<b>-64,342</b>	<b>-15,472</b>
Cash at the beginning of the period	172,334	40,440	71,405	16,753
Cash at the end of the period	108,918	25,259	7,066	1,667

## II. ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

### Consolidated statement of comprehensive income

	(PLN '000)			
	9 months ended 30-09-2016	3 months ended 30-09-2016	9 months ended 30-09-2015	3 months ended 30-09-2015
<b>Continuing operations</b>				
Revenue	220,614	92,840	384,331	175,901
Cost of sales	215,697	93,470	354,419	162,661
<b>Gross profit (loss) on sales</b>	<b>4,917</b>	<b>-630</b>	<b>29,912</b>	<b>13,240</b>
General and administrative expenses	15,033	4,408	17,046	6,120
Other operating income	3,962	903	5,437	902
Other operating expenses	1,432	840	7,652	2,454
Gain on bargain purchase	0	0	82	0
<b>Profit (loss) on operating activities</b>	<b>-7,586</b>	<b>-4,975</b>	<b>10,733</b>	<b>5,568</b>
Financial income	1,651	-91	662	107
Financial expenses	934	306	1,245	532
<b>Pre-tax profit (loss)</b>	<b>-6,869</b>	<b>-5,372</b>	<b>10,150</b>	<b>5,143</b>
Corporate income tax	-763	-826	2,848	1,032
<b>Net profit (loss) from continuing operations</b>	<b>-6,106</b>	<b>-4,546</b>	<b>7,302</b>	<b>4,111</b>
<b>Net profit (loss)</b>	<b>-6,106</b>	<b>-4,546</b>	<b>7,302</b>	<b>4,111</b>
<b>Other net comprehensive income</b>				
<b>Items that will not be reclassified subsequently to profit or loss:</b>	<b>13</b>	<b>0</b>	<b>128</b>	<b>0</b>
Remeasurement of liabilities under employee benefits	13	0	128	0
<b>Other total net comprehensive income</b>	<b>13</b>	<b>0</b>	<b>128</b>	<b>0</b>
<b>Total comprehensive income</b>	<b>-6,093</b>	<b>-4,546</b>	<b>7,430</b>	<b>4,111</b>
Number of shares	23,030,083	23,030,083	23,030,083	23,030,083
<b>Consolidated net profit attributable to:</b>				
Shareholders of the parent	-5,658	-4,408	6,978	3,962
Non-controlling interests	-448	-138	324	149
Net profit (loss) per share (PLN) (basic and diluted)	-0.25	-0.20	0.30	0.17



**Total comprehensive income attributable to:**

Shareholders of the parent	-5,645	-4,408	7,106	3,962
Non-controlling interests	-448	-138	324	149
Total comprehensive income per share (PLN)	-0.25	-0.20	0.31	0.17

*Consolidated statement of financial position*

	<b>As at 30-09-2016</b>	<b>As at 31-12-2015</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	82,030	81,619
Investment property	3,801	4,062
Intangible assets	9,733	10,178
Goodwill	31,172	31,172
Investments in non-consolidated subsidiaries	0	29
Advance payments for investments in subordinates	0	0
Long-term receivables	0	0
Retentions on construction contracts	7,498	5,614
Deferred tax assets	10,352	8,647
Other assets	0	0
<b>Total non-current assets</b>	<b>144,586</b>	<b>141,321</b>
<b>Current assets</b>		
Inventories	19,814	25,859
Trade and other receivables	104,353	77,839
Retentions on construction contracts	1,451	770
Current tax assets	987	4,030
Other financial receivables	0	0
Other assets	760	1,234
Loans advanced	317	158
Cash and cash equivalents	108,918	172,334
<b>Total current assets</b>	<b>236,600</b>	<b>282,224</b>
<b>Total assets</b>	<b>381,186</b>	<b>423,545</b>

	<b>As at 30-09-2016</b>	<b>As at 31-12-2015</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	5,758	5,758
Share premium account	93,837	93,837
Treasury shares	-2,690	-2,690
Retained earnings	105,892	119,050
<b>Total equity attributable to shareholders of ZUE</b>	<b>202,797</b>	<b>215,955</b>
Equity attributable to non-controlling interests	-59	389
<b>Total equity</b>	<b>202,738</b>	<b>216,344</b>
<b>Non-current liabilities</b>		
Long-term bank borrowings and other debt instruments and other financing sources	9,981	11,208
Retentions on construction contracts	8,134	8,012
Other financial liabilities	700	910
Liabilities under employee benefits	1,977	1,946
Deferred tax liabilities	13	170
Long-term provisions	7,867	6,957
Deferred revenue	0	0
Other liabilities	0	0
<b>Total non-current liabilities</b>	<b>28,672</b>	<b>29,203</b>
<b>Current liabilities</b>		
Trade and other payables	102,054	117,730
Retentions on construction contracts	9,066	11,715
Short-term bank borrowings and other debt instruments and other financing sources	13,058	11,841
Other financial liabilities	317	317
Liabilities under employee benefits	17,480	22,988
Current tax liabilities	0	66
Short-term provisions	7,801	13,341
<b>Total current liabilities</b>	<b>149,776</b>	<b>177,998</b>
<b>Total liabilities</b>	<b>178,448</b>	<b>207,201</b>
<b>Total equity and liabilities</b>	<b>381,186</b>	<b>423,545</b>

Consolidated statement of changes in equity

(PLN)

		Share capital	Share premium account	Treasury shares	Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
<b>Balance at</b>	<b>1 Jan 2016</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>119,050</b>	<b>215,955</b>	<b>389</b>	<b>216,344</b>
Change of interest in subsidiaries		0	0	0	0	0	0	0
Dividend		0	0	0	-7,513	-7,513	0	-7,513
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Repurchase of shares		0	0	0	0	0	0	0
Profit (loss) for the year		0	0	0	-5,658	-5,658	-448	-6,106
Other net comprehensive income		0	0	0	13	13	0	13
<b>Balance at</b>	<b>30 Sep 2016</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>105,892</b>	<b>202,797</b>	<b>-59</b>	<b>202,738</b>

		Share capital	Share premium account	Treasury shares	Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
<b>Balance at</b>	<b>1 Jan 2015</b>	<b>5,758</b>	<b>93,837</b>	<b>0</b>	<b>101,856</b>	<b>201,451</b>	<b>0</b>	<b>201,451</b>
Change of interest in subsidiaries		0	0	0	0	0	125	125
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
Repurchase of shares		0	0	-2,661	0	-2,661	0	-2,661

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Profit (loss) for the year	0	0	0	6,978	6,978	324	7,302
Other net comprehensive income	0	0	0	128	128	0	128
<b>Balance at 30 Sep 2015</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,661</b>	<b>108,962</b>	<b>205,896</b>	<b>449</b>	<b>206,345</b>

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Consolidated statement of cash flows

(PLN '000)

	9 months ended 30-09-2016	9 months ended 30-09-2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit / (loss) before tax</b>	<b>-6,869</b>	<b>10,150</b>
<b>Adjustments for:</b>		
Depreciation and amortisation	7,168	6,956
Foreign exchange gains / (losses)	-244	-3
Interest and share in profit (dividends)	-586	-69
(Gain) / loss on disposal of investments	-134	4,944
Accrued expenses under commission on loans	0	156
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
<b>Operating profit (loss) before changes in working capital</b>	<b>-665</b>	<b>22,134</b>
Change in receivables and retentions on construction contracts	-28,834	-81,445
Change in inventories	6,044	-22,483
Change in provisions and liabilities under employee benefits	-10,107	9,532
Change in retentions on construction contracts and liabilities, excluding borrowings, other debt instruments and other financing sources	-17,709	22,090
Change in accrued expenses	498	1,107
Change in funds of limited availability	0	0
Other adjustments	110	240
Income tax paid / (refunded)	1,800	-2,330
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>-48,863</b>	<b>-51,155</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of property, plant and equipment and intangible assets	440	4,306
Purchase of property, plant and equipment and intangible assets	-7,636	-8,012
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 minority shareholders	0	-4
Purchase of financial assets available for sale	0	-2,661
Loans advanced	-315	-10
Repayment of loans advanced	74	0
Dividends received	0	0
Interest received	1,286	421
Settlement of financial instruments – expenses	0	0
Cash from acquisition of subsidiary	0	849
Sale of financial assets in associates	0	0
Other cash provided by / (used in) investing activities	0	0
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>-6,151</b>	<b>-5,108</b>

### CASH FLOWS FROM FINANCING ACTIVITIES

Borrowings and other debt instruments received	5,143	221
Repayment of borrowings and other debt instruments	-200	-4,333
Decrease in finance lease liabilities	-5,624	-3,678
Interest paid	-452	-375
Other cash provided by / (used in) financing activities – dividends	-7,513	-2
Net cash provided by issue of shares	0	88
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-8,646</b>	<b>-8,079</b>
<b>TOTAL NET CASH FLOWS</b>	<b>-63,660</b>	<b>-64,342</b>
Net foreign exchange gains / (losses)	244	3
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>172,334</b>	<b>71,405</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>108,918</b>	<b>7,066</b>

### Notes to Abbreviated Consolidated Financial Statements of the Group

#### 1. Functional and reporting currency

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

#### 2. Use of International Financial Reporting Standards

##### Statement of compliance

The abbreviated consolidated financial statements have been drawn up in accordance with the requirements of the International Financial Reporting Standards at 30 September 2016 as endorsed by the European Union (EU).

The consolidated quarterly financial statements for the nine months ended 30 September 2016 have been prepared according to the requirements binding on public companies.

##### Amendments to existing standards and the interpretation used for the first time in the reporting period

The following amendments to existing standards published by the International Accounting Standards Board and approved for use in the European Union come into force in the Group's financial statements for 2016:

- **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) – approved of in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 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”** – 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 abovementioned amendments to existing standards or the interpretation did not have any material influence on the Group’s financial statements for 2016.

**New standards and amendments to existing standards published by the IASB and approved of by the EU but not yet effective**

When approving these financial statements, there were no new standards or amendments to existing standards published by the IASB and approved of by the EU but not yet effective.

**New standards and amendments to existing standards published by the IASB but not yet approved of by the EU**

The International Financial Reporting Standards (IFRS) as endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the standards not yet approved for use in the EU at this report preparation 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 issued;
- **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 2 “Share-based payment”** – Classification and Measurement of Share-based Payment transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 “Insurance Contracts”** – Use of IFRS 9 “Financial Instruments” and IFRS 4 “Insurance Instruments” (effective for annual periods beginning on or after 1 January 2018 or upon the use of IFRS 9 “Financial Instruments” for the first time);
- **Amendments to IFRS 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).

The influence of these amendments on future consolidated financial statements of the Group is being analysed.

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 consolidated financial statements if used by the Group at the end of the reporting period.

### **3. Important accounting principles**

#### **Going concern**

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

#### **Preparation basis**



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

#### **Comparability of financial information**

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

#### **Applied accounting principles**

These quarterly consolidated financial statements for the nine months ended 30 September 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 as at 31 December 2015. The financial statements for the financial year ended 31 December 2015 contain a detailed description of accounting principles used by the Group.

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

#### **4. Revisions to estimates**

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

#### **Provisions**

	(PLN '000)					
<b>Provisions</b>	<b>01-01-2016</b>	<b>Created</b>	<b>Used</b>	<b>Released</b>	<b>Reclassified</b>	<b>30-09-2016</b>
<b>Non-current provisions:</b>	<b>8,903</b>	<b>845</b>	<b>31</b>	<b>420</b>	<b>-547</b>	<b>9,844</b>
Provisions for employee benefits	1,946	36	0	5	0	1,977
Provisions for warranty claims	6,957	809	31	415	-547	7,867
Other provisions	0	0	0	0	0	0
<b>Current provisions:</b>	<b>30,356</b>	<b>13,755</b>	<b>13,374</b>	<b>10,996</b>	<b>547</b>	<b>19,194</b>
Provisions for employee benefits	17,015	9,877	13,031	2,468	0	11,393
Provisions for warranty claims	9,192	50	343	4,142	547	4,210
Provision for loss on contracts	1,418	3,820	0	2,886	0	2,352
Other provisions	2,731	8	0	1,500	0	1,239
<b>Total provisions:</b>	<b>39,259</b>	<b>14,600</b>	<b>13,405</b>	<b>11,416</b>	<b>0</b>	<b>29,038</b>

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Group companies. The amount of the provision depends on the amount of revenues taking account of the liability of subcontractors for the works they have been entrusted with. During the contract performance, provisions for warranty claims are recognised in costs of sales on the basis on the proportion of costs incurred. 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 provisions for employee benefits, current liabilities under employee benefits include liabilities relating to salaries and social security premiums.

Provisions for loss on contracts are 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) 30-09-2016
Deferred tax assets	21,771	5,238	0	27,009
Deferred tax liability	13,294	3,376	0	16,670
<b>Balance of assets and liabilities</b>	<b>8,477</b>			<b>10,339</b>

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. Composition of the Capital Group and its core business

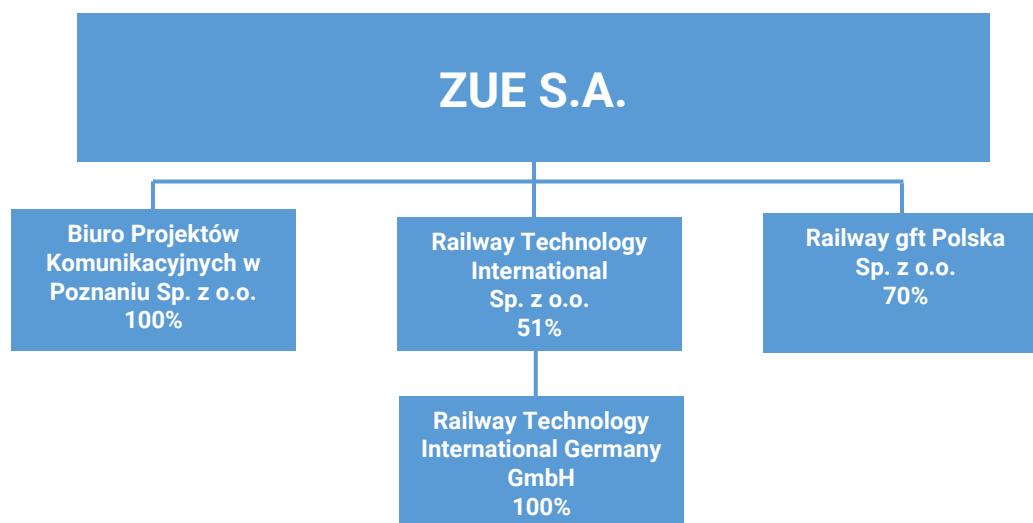
At the end of the reporting period, the Capital Group is composed of ZUE S.A. (parent company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o and Railway Technology International Germany GmbH (indirect subsidiary).

ZUE Spółka Akcyjna with registered office in Cracow (ul. Kazimierza Czapieńskiego 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, 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 at 30 September 2016:

Company	Registered office	Interests as at		Consolidation method
		30 September 2016	31 December 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 30 September 2016.

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 30 September 2016.

## 7. Change 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 (including ZUE) proportionally to the shares already held by them and paid up in cash of PLN 175,000. ZUE's contribution was paid up by the set-off of claims relating to the loans granted to RTI. The increase of the share capital of RTI was entered into 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, construction services were mainly provided to:

- ☒ PKP Polskie Linie Kolejowe S.A. The following contacts were performed by ZUE:
  - 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."
  - Design and construction services in connection with the following project: "Preparation of documentation and completion of construction works on the Skarżysko Kamienna - Suchedniów section, railway line no. 8" as part of the following project: "Upgrade of the Radom - Kielce railway line no. 8."
  - "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 - Zebrydowice, section from 62,260 km to 68,780 km in the selected locations, plus the accompanying works and services provided in connection with Substructure Repair Train with the use of AHM-800R formation rehabilitation machine, RM80 ballast cleaning machine and 20 hopper cars of type 426 Vb, representing the potential of the Contracting Authority - Zakład Maszyn Torowych w Krakowie."
  - Upgrade of the railway line no. 62 on the Dąbrowa Górnicza Strzemieszyce - Sosnowiec Dańdówka section as part of the following project: "Services in the railway lines no. 62 and 660 on the Tunel - Bukowno - Sosnowiec Płd section."
  - Design services and completion of power works in connection with the following project: "Works on the Poznań Wschód - Dziarnowo line no. 353, the Mogilno - Kołodziejewo - Janikowo section."

- o 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.
  - o Design and construction services in connection with the following project: "Works on the line no. 7 of the Lublin - Dorohusk section – stage I" performed as part of the following project: "Works on the line no. 7 of the Lublin - Dorohusk section."
  - o Additional and supplementing works on the 014 Łódź Kaliska – Tulipce railway line.
- ☒ Tramwaje Szczecińskie Sp. z o.o. Reconstruction of road and tram tracks along the Mickiewicza Street from the Brzozowskiego Street to the Samosierry Street in Szczecin.
- ☒ Tramwaje Warszawskie Sp. z o.o. The following contacts were performed by ZUE:
- o Reconstruction of the tram tracks in the intersection of Połczyńska and Powstańców Śląskich Streets in Warsaw.
  - o Construction of tram line to Tarchomin – stage II.
- ☒ Gmina Miejska Kraków [*the City of Cracow*] represented by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie – contracts performed as part of infrastructure maintenance agreements: "Maintenance and repair of tram infrastructure in Cracow in the period 2015 – 2018 and Maintenance of street lighting infrastructure in Cracow.
- ☒ Polskie Sieci Elektroenergetyczne Spółka Akcyjna – "Construction of the double track 400 kV Kozienice – Ołtarzew."

Design services relating to urban and rail communication systems are provided both to investors and companies, which perform contracts in a "design-build" formula. The biggest clients of BPK Poznań in the reporting period included: PKP Polskie Linie Kolejowe S.A., Poznańskie Inwestycje Miejskie, Tramwaje Warszawskie Sp. z o.o., MPK Poznań Sp. z o.o. 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. Order book

At this report preparation date, the net value of the Group's order book is approx. PLN 683m and provides it with an ability to provide the services in the period 2016-2019. As for construction and assembly services, the net value of the contracts is approx. PLN 663m and for design services, the net value of the signed contracts is PLN 16m. The orders for the supply of materials and equipment in the remainder of 2016 are worth PLN 4m (net).

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

- Construction of the double track 400 kV Kozienice – Ołtarzew. 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 is PLN 42,345 thousand.
  - Design services, completion of construction works as well as upgrade services 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 E30/C-E30 railway line, Cracow – Rzeszów section, stage III." Total net value attributable to ZUE is PLN 180,886 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, including supplementary works, is PLN 27,193 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 – Zbrzydowice, 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 is 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 including additional contracts is PLN 28,890 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 is PLN 12,447 thousand.
- ☒ Design and construction services in connection with the following project: "Preparation of documentation and completion of construction works on the Skarżysko Kamienna – Suchedniów section, railway line no. 8" as part of the following project: "Upgrade of the Radom - Kielce railway line no. 8. Net value of the contract and an annex attributable to ZUE is PLN 24,708 thousand.
- ☒ Design and construction services in connection with the following project: "Works on the line no. 7 of the Lublin - Dorohusk section – stage I" performed as part of the following project: "Works on the line no. 7 of the Lublin - Dorohusk section." Net value attributable to ZUE is PLN 13,405 thousand.
- ☒ Construction of tram line to Tarchomin – stage II. Net value attributable to ZUE is PLN 16,630 thousand.
- ☒ Preparation of design documentation and completion of construction and assembly works as part of the following project: "Works on the Kraków Mydlniki – Podłęże railway line no. 95, the Kościelniki – Podłęże section." Net value attributable to ZUE is PLN 29,098 thousand.
- ☒ "Completion of construction works on the Ostrowite – Biskupiec Pomorski and Biskupiec Pomorski – Jamielnik routes as part of the following project: "Works on the line no. 353 of the Jabłonowo Pomorskie - Iława - Olsztyn – Korsze section." Net value attributable to ZUE is PLN 27,882 thousand.
- ☒ Design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: "Investment works at the Medyka - Mościska II border crossing." Net value attributable to ZUE is PLN 41,500 thousand.

The value of construction contracts signed in 2016 is PLN 281m.

At the date of preparation of this report, ZUE submitted (independently or as a consortium member) the lowest price tenders in tender procedures for the total net amount of PLN 654.7m. The expected remuneration under the said contracts attributable to ZUE is approx. PLN 404m. In addition, the tender submitted by the consortium including ZUE has been selected as the most advantageous offer in the tender procedure for the net amount of PLN 159.7m and the remuneration under the said contract attributable to ZUE is approx. PLN 53m. (**Current report 48/2016, 50/2016 and 53/2016**).

## **11. Major achievements or failures**

In the reporting period, the Company mainly won small contracts as a result of which its order book was fragmented. A margin on the contracts performed by the Company was much lower than it had been in the past years. At the same time, the Company intended to maintain its workload capacity with regard to both its staff and equipment and the construction works carried out on a smaller scale generated additional costs. In addition, the three quarters of 2016 saw a downturn in the rail and urban infrastructure market. Nonetheless, the Issuer participates (independently or as a consortium member) in a dozen of tender procedures for the estimated total amount of approx. PLN 15.5bn. By this report preparation date, no major events occurred other than the events described in detail in section 12, 13 and 14 below.

## **12. 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 "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 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 would be completed earlier. **(Current reports 2/2016, 4/2016, 5/2016, 6/2016, 8/2016, 11/2016, 13/2016, 16/2016)**

On 9 February 2016, the Company received 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 POLAND S.A. 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)**

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)**

On 15 April 2016, the Company received 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 on the Management Board's proposal concerning the distribution of the profit for 2015. **(Current report 20/2016)**

On 27 April 2016, the Company published preliminary separate and consolidated financial results for the first quarter of 2016. **(Current report 21/2016)**

On 11 May 2016, the Company and PKP PLK entered into the design and construction contract for the upgrade of the railway line on the Skarżysko Kamienna – Suchedniów section. The total net value of contracts entered into since 16 April 2016 between the companies comprising the ZUE Capital Group and the companies comprising the PKP PLK Capital Group amounted to PLN 27.2m. **(Current report 25/2016)**

Following the acceptance on 16 May 2016 by Railway gft of an order for the supply of breakstone, the total value of orders/contracts entered into between the Company and Railway gft since 30 October 2015 was PLN 23.4m. **(Current report 26/2016)**

On 25 May 2016, the Ordinary General Meeting of ZUE resolved to allocate the net profit generated by the Company in the financial year 2015 in the following manner:

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

The right to dividend for 2015 was determined as at 13 June 2016 and the dividend would be paid on 23 June 2016. **(Current report 31/2016)**

The Ordinary General Meeting of ZUE also resolved on 25 May 2016 to appoint five members to the Company's Supervisory Board for a new term. The said members served on the Company's Supervisory Board in the previous term. **(Current reports 28/2016, 30/2016)**

Next, the Company Supervisory Board resolved on 25 May 2016 to appoint five members to the Company's Management Board for a new three-year term. The same members would serve on the Management Board as of 25 May 2016. **(Current report 32/2016)**

On 7 June 2016, the consortium of the Company and Strabag sp. z o.o., and Tramwaje Warszawskie sp. z o.o. (Tramwaje Warszawskie) entered into the contract for "Construction of tram line to Tarchomin – stage II." The total net value of the contracts entered into since 13 August 2015 between the companies comprising the ZUE

Capital Group and the Group companies included in a consortium, and Tramwaje Warszawskie amounted to PLN 31.9m. **(Current report 33/2016)**

On 29 June 2016, the Company and mBank S.A. with registered office in Warsaw (the Bank) entered into a master agreement (the Agreement). Under the Agreement, the Company would use the guarantees provided by the Bank as part of the guarantee line provided to it. The Company was granted the limit (the Limit) up to PLN 70m until 28 July 2027. Under the Agreement, the Bank was ready to provide PLN- and EUR-denominated bid bonds, advance payment bonds, performance bonds, deposit payment bonds and warranty performance bonds.

In connection with the Agreement, on 29 June 2016, the Company signed an annex to the cooperation agreement for the Company's use of the Bank's products and services to finance the Company's day-to-day operations (the Annex). The Company informed about the cooperation agreement in the current report 98/2015 of 22 December 2015 and previous reports. Under the Annex, the Company was granted the right to use the products until 20 July 2017 as part of the limit reduced from PLN 90m to PLN 40m. In addition, the Annex dealt with a change in sublimits.

Excluding the abovementioned Agreement and the Annex, the total value of the agreements between the companies comprising the ZUE Capital Group and the Bank concluded in the 12 months preceding the conclusion of the Agreement and the Annex was approx. PLN 13m. **(Current report 35/2016)**

On 28 July 2016, ZUE and PKP PLK signed the contract concerning the development of design documentation and completion of construction and assembly works as part of the following project: "Works on the Kraków Mydlniki – Podłężę railway line no. 95 of the Kościelniki – Podłężę section" executed as part of the following project: "Works on the line E 30 of the Kraków Główny Towarowy – Rudzice section and the construction of additional tracks of the urban railway line." The Company informed about the submission of the lowest price tender for the said project in the current report 27/2016 and the selection of the Company's tender as the most economically advantageous offer in the current report 34/2016. The contract net value including the provisional sum was PLN 29.1m and the contract gross value was PLN 35.8m. The Contract performance date was set for 540 days of the commencement of construction works. **(Current report 37/2016)**

Following the acceptance on 28 July 2016 by Railway gft of an order for the supply of building materials to the Company, the total value of orders/contracts entered into between the Company and Railway gft since 17 May 2016 was PLN 22.1m. **(Current report 38/2016)**

On 2 August 2016, the Company learnt that OHL ŽS, a.s., agent of the consortium of:

- 1) OHL ŽS, a.s. (Consortium Agent);
- 2) Swietelsky Baugesellschaft m.b.H (Consortium Partner); and
- 3) ZUE S.A. (Consortium Partner);

received from PKP PLK a signed annex to the contract for design services 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" (the Contract). Under the said annex, the Contract completion date was extended by not more than 91 months of the commencement date (not more, however, than by 24 May 2018). **(Current report 39/2016)**

On 19 August 2016, the Company published preliminary separate and consolidated financial results for the first half of 2016. **(Current report 42/2016)**

On 23 September 2016, the Company learnt about the proceedings instigated against the Company. The Company was sued by Elektrobudowa S.A. with registered office in Katowice (the "Petitioner") for approx. PLN 24.8m on the grounds of unjust enrichment. The proceedings were instigated based on a lawsuit filed on 1 September 2016 in the District Court of Łódź. The District Court of Cracow had jurisdiction over the said proceedings. On 26 September 2016, the Company learnt about the lawsuit of 21 July 2016 filed by the Petitioner in the District Court of Szczecin. The lawsuit concerned the same claim and was subsequently withdrawn by the Petitioner from the abovementioned District Court. The Company was also informed by the District Court of Łódź that the lawsuit referred to in the current report 45/2016 had also been withdrawn by the Petitioner. The Issuer maintained like they did in the current report 45/2016 that the Petitioner's claim was ungrounded. **(Current report 45/2016 and 46/2016)**

### **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.

On 11 May 2016, ZUE and mBank S.A. signed an annex to the overdraft agreement of 29 November 2004. The annex dealt mainly with a reduction of the limit from PLN 10m to PLN 5m and the extension of the credit term until 12 May 2017.

On 14 July 2016, ZUE and PZU S.A. signed an annex to the mandate agreement for temporary project-related bonding products of 29 April 2010. The annex dealt mainly with an extension of the term of the agreement until 12 July 2017.

On 12 August 2016, a revolving credit agreement was signed between Railway gft, ZUE and Bank BGŻ BNP Paribas S.A. The principal borrower was Railway gft. The value of the credit was PLN 3m and the credit would be granted until 12 August 2017.

#### **14. Major events after the reporting period**

On 3 October 2016, ZUE and PKP PLK signed a contract for the following project: "Completion of construction works on the Ostrowite – Biskupiec Pomorski and Biskupiec Pomorski – Jamielnik routes" as part of the following project: "Works on the line no. 353 of the Jabłonowo Pom - Iława - Olsztyn – Korsze section." The Company informed about the submission of the lowest price tender in the current report 36/2016 and the selection of the Company's tender as the most advantageous offer in the current report 44/2016. The contract net value was PLN 29.0m (including the provisional sum of 4% of the contract net value of PLN 1.1m). The contract gross value was PLN 35.7m. The project completion date (final acceptance) was set for 5 October 2017. The total value of the contracts entered into between 29 July 2016 and 3 October 2016 between the companies comprising the ZUE Capital Group and the companies comprising the PKP PLK Capital Group was PLN 47m. **(Current report 47/2016)**

On 7 October 2016, the Company learnt of the Company's submission of the lowest price tender in the tender procedure for design and construction services in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola." Net value of the tender submitted by the Company was PLN 281.0m. Gross value of the tender submitted by the Company was PLN 345.6m. The project completion date was set for 38 months of the contract conclusion date. **(Current report 48/2016)**

On 14 October 2016, ZUE and PKP PLK entered into a contract for design and construction services and purchase of land in the area of the Medyka station in connection with the following project: "Investment works at the Medyka - Mościska II border crossing." The Company informed about the submission of the lowest price tender in the current report 40/2016 and the selection of the Company's tender as the most advantageous offer in the current report 43/2016. The contract net value was PLN 41.5m. The contract gross value was PLN 51.0m. The project completion date (completion of all works specified in the contract) was set for 1300 days of the contract conclusion date but not later than 20 May 2020 **(Current report 49/2016)**

On 14 October 2016, the Company learnt about the submission by the consortium of Trakcja PRKił S.A. (Leader), COMSA S.A., the Company, STRABAG sp. z o.o. and STRABAG Rail a.s of the lowest price tender in the tender procedure for design and construction services in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of 2014 – 2020 Infrastructure and Environment Operational Programme (IEOP). Net value of the tender submitted by the consortium was PLN 373.7m. Gross value of the tender submitted by the consortium was PLN 459.7m. The completion date was set for 30 months of the contract conclusion date. **(Current report 50/2016)**

Following the conclusion on 14 October 2016 by the Company and Railway gft of a contract for the supply of building materials, the total value of the contracts entered between the Company and Railway gft since 29 July 2016 was PLN 24.3m. **(Current report 51/2016)**

On 19 October 2016, an agreement was entered into with TUIr Allianz Polska S.A. of Warsaw (the Guarantor) for the provision of project-related bonding products under a revolving facility up to PLN 30m until 30 September 2017. Under the agreement, the bonding products (bid bonds, performance bonds and defects liability bonds) would be provided by the Guarantor to the Company for the benefit of the entities specified by the Company. **(Current report 52/2016)**

On 20 October 2016, the Company learnt about the selection by PKP PLK of the tender submitted by the consortium comprising Budimex S.A., STRABAG sp. z o.o., STRABAG Rail a.s, STRABAG Rail GmbH, STRABAG Általános Építő Kft. and the Company (the Consortium) as the most economically advantageous offer in the tender procedure for the completion of design services and construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section)." Net value of the tender submitted by the Consortium was PLN 159.7m. Gross value of the tender submitted by the Consortium was PLN 196.4m. The completion date was set for 26 months of the contract conclusion date. Tenders were opened on 5 October 2016 and the tender submitted by the Consortium ranked second. On 20 October 2016, the Company learnt that the first place tender had been excluded from the Tender Procedure as a result of which the Consortium's tender was selected as the most economically advantageous offer. **(Current report 53/2016)**

On 3 November 2016, the Company published preliminary separate and consolidated financial results for the three quarters of 2016. **(Current report 54/2016)**

## **15. Bonds and guarantees**

The activities 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 September of 2016 exceeds PLN 307.5m and EUR 12.5m.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the guarantees as at 30 September 2016 is PLN 13.8m.

At the end of September of 2016, the value of guarantees provided to secure sales transactions entered into by subsidiaries is PLN 10,000 thousand and EUR 311 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 provided by banks and insurance companies or bills of exchange. They are presented in the financial statements as contingent assets whose value as at 30 September 2016 is PLN 27,765 thousand.

## **16. 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 companies are exposed to price risk.

- **Higher fees charged by subcontractors**

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

- **Unstable EUR/PLN exchange rate**

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

- **Outcome of court proceedings**

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

## **17. Unusual factors and events with significant influence on the Group's results**

No unusual factors or events occurred in the reporting period.

## **18. Risks believed by the Group to have an influence on the Group's future results**

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

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

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

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

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

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

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

The Group sometimes needs to obtain administrative decisions required to execute certain projects. Such

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

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

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

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

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

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

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

- **Risk related to logistics**

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

- **Risk related to bankruptcy of counterparties**

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

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

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

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

Frequent amendments to and the lack of coherence or uniform interpretation of the law including, in particular, tax law entail a substantial risk related to the legal environment the Group operates in. In particular, tax authorities



relying, for instance, on interpretations of the Minister of Finance may question the Group's tax settlements related to its transactions executed as part of its ordinary course of business or other transactions (for instance capital transactions). Consequently, changes of laws or their interpretation, which are disadvantageous to the Group, may have a negative impact on the Group's financial position.

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

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

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

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

- **Interest rate risk**

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

- **Risk related to weather conditions**

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

- **Risk related to greater employments costs**

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

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

## **19. Notes on seasonal and cyclical nature of the Group's operations**

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

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

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

## **20. Strategic objectives**

The Group's strategic objectives include:

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

The main strategic objective in 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 Group is to expand its offer to include the service and maintenance of urban and rail infrastructure.

### *Corporate information*

#### **21. Governing bodies**

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

##### Management Board:

Wiesław Nowak	Management Board President
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 Chairperson
Magdalena Lis	Supervisory Board Vice-Chairperson
Bogusław Lipiński	Supervisory Board Member
Piotr Korzeniowski	Supervisory Board Member
Michał Lis	Supervisory Board Member

#### **22. Share capital structure**

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

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

#### **23. Treasury shares**

At the report preparation date, the Company holds 264,652 own shares. The Company acquired the shares as part of 2015 buy-back of shares from the employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., the company which merged with ZUE.



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

## 24. Shareholding structure

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

Shareholder	At the date of preparation of this quarterly report; i.e. 4 November 2016		At the date of publication of previous quarterly report; i.e. 29 April 2016	
	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
<b>Total</b>	<b>23,030,083</b>	<b>100</b>	<b>23,030,083</b>	<b>100</b>

\* 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.

## 25. Shares and powers held by members of the Company's management and supervisory bodies

Name	Position	Number of shares/votes at 4 November 2016	% of the share capital/total number of votes	Changes in shareholding since the publication of the last quarterly report; i.e. 29 April 2016
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	7,806	0.03	Purchase of 100 shares
Magdalena Lis	Supervisory Board Vice-Chairperson	7,565	0.03	Purchase of 20 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 or supervisory bodies did not hold any ZUE shares at this report preparation date.

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

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

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

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

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

## **28. 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 abovementioned recommendations were approved of by the Company's Supervisory Board.

On 25 May 2016, the Ordinary General Meeting of ZUE resolved to allocate the net profit generated by the Company in 2015 according to the abovementioned recommendations. The right to dividend for 2015 was determined as at 13 June 2016 and the payment date was set at 23 June 2016.

The said distribution did not include any treasury shares acquired by the Company on the basis of the Resolution no. 4 passed by the Extraordinary General Meeting on 8 December 2014.

## *Financial information*

## **29. Discussion of financial results**

### **Analysis of financial results reported by the Group and ZUE at the end of the third quarter of 2016**

#### Income statement

The Group's revenue in the period 1 January 2016 - 30 September 2016 stood at PLN 220,614 thousand and decreased by 42.6% compared to the revenue for the analogous period of 2015. The Company's revenue for the three quarters of 2016 dropped by 45.4% when compared with the analogous period of 2015 and amounted to PLN 197,564 thousand. Lower revenues are mainly a result of a sharp and expected downturn in the rail and urban infrastructure market. At present, the Company performs small rail and urban infrastructure contracts as a result of which its order book is fragmented. A margin on the contracts performed by the Company is much lower than it was in the past years. At the same time, the Company intends to maintain its workload capacity with regard to both its staff and equipment and the construction works carried out on a smaller scale generate additional costs.

The table below sets out the results recorded by the Group and the Company in the three quarters of 2016:

	Group (PLN '000)	ZUE (PLN '000)
--	---------------------	-------------------

Gross profit (loss)	4,917	3,257
EBIT	-7,586	-6,745
EBITDA	-419	-98
Pre-tax profit (loss)	-6,869	-5,667
Net profit (loss)	-6,106	-4,831

Other operating income reported by the Company in the reporting period was PLN 3,677 thousand. The item 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).

General and administrative expenses reported for the three quarters of 2016 by ZUE stood at PLN 12,293 thousand – down by 7.2% compared to general and administrative expenses reported for the analogous period of 2015. Consolidated general and administrative expenses reported for the three quarters of 2016 stood at PLN 15,033 thousand and decreased by 12% compared to the figure reported for the analogous period of 2015.

#### Balance sheet

At 30 September 2016, the Group's total assets and liabilities stood at PLN 381,186 thousand and increased by 0.7% over the figure reported at the end of June 2016. The Company's total assets and liabilities amounted to PLN 369,543 thousand and increased by 1.1% over the figure reported at the end of June 2016.

Items with the biggest influence on the said total assets and liabilities at the end of September 2016:

1) Current assets (separate accounts):

- Decrease in inventories by PLN 4,539 thousand as a result of the use of the stored materials in order to provide construction services;
- Increase in trade and other receivables by PLN 17,893 thousand as a result of the works carried out under construction contracts;
- Decrease in cash and cash equivalents by PLN 11,388 thousand as a result of the use of cash in order to finance day-to-day operations.

2) Long- and short-term payables (separate accounts):

- Increase in long-term bank borrowings and other debt instruments and other financing sources by PLN 1,797 thousand as a result of greater use of lease services;
- Increase in trade and other payables by PLN 4,743 thousand as a result of settlement with suppliers in connection with construction works;
- Increase in short-term retentions under construction contracts by PLN 1,470 thousand as a result of greater number of performed construction contracts.

#### Cash flow statement

The table below sets out the main items of cash flow statement in the three quarters of 2016:

	Group (PLN '000)	ZUE (PLN '000)
Cash flows from operating activities	-48,863	-47,604
Cash flows from investing activities	-6,151	-6,181
Cash flows from financing activities	-8,646	-9,478
Total net cash flows	-63,660	-63,263
Cash at the beginning of the period *	172,334	169,795
Cash at the end of the period	108,918	106,774

\*At 1 January 2016.

In the third quarter of 2016, the Company's cash and cash equivalents decreased by PLN 11,388 thousand after the cash had been used to finance day-to-day operations.

#### Results reported by segments

Construction activities conducted by ZUE in the reporting period generated a net loss of PLN 4,831 thousand (gross profit of PLN 3,257 thousand). Sales activities conducted by Railway gft in the reporting period generated a net loss of PLN 1,148 thousand (gross profit of PLN 969 thousand). Like the construction activities conducted by ZUE, sales activities are strongly influenced by the downturn in the Polish rail and urban infrastructure market. Design activities are conducted by BPK Poznań. The segment reported a gross profit of PLN 1,091 thousand and a net profit of PLN 10 thousand for the three quarters of 2016.

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

The Company did not publish any forecast 2016 financial results.

### 31. Trade and other receivables

	(PLN '000)	
	As at 30-09-2016	As at 31-12-2015
Trade receivables	79,761	72,225
Trade receivables write-downs	-15,990	-14,282
Receivables from the state budget other than corporate income tax	391	714
Receivables under contracts (measurement)	35,903	15,921
Advance payments	3,798	3,005
Other receivables	490	256
<b>Total trade and other receivables</b>	<b>104,353</b>	<b>77,839</b>

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

	(PLN '000)	
	As at 30-09-2016	
Counterparty A	39,157	
	<b>39,157</b>	

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 ZUE believe there is no need to create additional allowances.

### 32. Trade and other payables

	(PLN '000)	
	As at 30-09-2016	As at 31-12-2015
Trade payables	30,742	43,424
Liabilities to the state budget other than corporate income tax	3,719	5,705
Accruals	63,789	53,296
Liabilities under contracts (measurement)	3,689	15,106

Other payables	115	199
<b>Total trade and other payables</b>	<b>102,054</b>	<b>117,730</b>

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

The Management Board's evaluation of provisions concerning the risks relating to the settlement of the *Franowo Depot* contract did not change when compared with the previous year.

### **33. Discontinued operations**

No operations were discontinued within the meaning of the IFRS 5 during the nine months ended 30 September 2016 or the nine months ended 30 September 2015.

### **34. Investments in non-current assets**

By the date of preparation of this report, the Group made a number of investments in non-current assets of the total value of PLN 7,026 thousand out of which, the investments of the total value of PLN 7,019 thousand were made in the three quarters of 2016.

The assets purchased by the Group include:

- Diesel engine;
- Complete overhauls of dump cars; and
- Cars.

### **35. Segment reporting**

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

- Construction;
- Design; and
- Sales.

These operating segments jointly meet the following criteria:

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

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

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

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

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

Operating segments' results for the three quarters of 2016: (PLN '000)

	Construction	Sales	Design	Exclusions	Total (Group)
<b>Revenue</b>	<b>197,564</b>	<b>60,428</b>	<b>6,672</b>	<b>-44,050</b>	<b>220,614</b>
including:					
Revenue from external customers	196,879	17,657	6,029	49	220,614
Inter-segment revenues	685	42,771	643	-44,099	0
<b>Gross profit</b>	<b>3,257</b>	<b>969</b>	<b>1,091</b>	<b>-400</b>	<b>4,917</b>
Financial income / expenses	1,078	-332	-29	0	717
Interest received	1,286	0	0	0	1,286
Interest paid	-305	-135	-12	0	-452
<b>Pre-tax profit</b>	<b>-5,667</b>	<b>-1,068</b>	<b>35</b>	<b>-169</b>	<b>-6,869</b>
Corporate income tax	-836	80	25	-32	-763
<b>Net profit</b>	<b>-4,831</b>	<b>-1,148</b>	<b>10</b>	<b>-137</b>	<b>-6,106</b>
Depreciation and amortisation	6,843	131	79	115	7,168
Property, plant and equipment	78,917	7	133	2,973	82,030
Non-current assets	144,098	329	1,207	-1,048	144,586
<b>Total assets</b>	<b>369,543</b>	<b>17,993</b>	<b>6,865</b>	<b>-13,215</b>	<b>381,186</b>

### 36. Transactions with related entities

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

(PLN '000)

	Receivables		Payables	
	As at		As at	
	30-09-2016	31-12-2015	30-09-2016	31-12-2015
RTI	0	1	0	0
RTI Germany	0	0	0	19
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>19</b>
	Revenue		Purchases	
	Period ended		Period ended	
	30-09-2016	30-09-2015	30-09-2016	30-09-2015
RTI	3	9	0	0
RTI Germany	0	0	113	664
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>3</b>	<b>9</b>	<b>113</b>	<b>664</b>
	Advanced loans		Financial income (interest on loans)	
	As at		Period ended	
	30-09-2016	31-12-2015	30-09-2016	30-09-2015
RTI	0	158	0	4
RTI Germany	36	0	0	0

Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>36</b>	<b>158</b>	<b>0</b>	<b>4</b>

	Received loans		Financial expenses (interest on loans)	
	As at		Period ended	
	30-09-2016	31-12-2015	30-09-2016	30-09-2015
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	16
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16</b>

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

In the three quarters 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.

On 31 May 2016, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 5.4 thousand to be repaid by 20 June 2017. The amount of the loan was changed under an annex to EUR 13 thousand. The loan was advanced in instalments according to the schedule. The amount of EUR 8.4 thousand was advanced by the end of the reporting period. The amount of EUR 2 thousand was advanced on 6 October 2016.

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

### 37. 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 38,737,702.03; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 2,582,823.66 and the total value of the proceedings concerning claims is PLN 36,154,878.37.

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

#### The biggest pending court proceeding concerning liabilities:

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.

In addition, on 14 July 2016 the Company received an application for conciliation proceedings submitted by MPK w Poznaniu sp. z o.o. (Applicant) against ZUE S.A. and Elektrobudowa S.A. (Opponents). The application concerned the payment by the Opponents to the Applicant of PLN 1,712,208.38 plus statutory interest from 21 June 2014 until the date of payment in connection with the Opponents' failure to meet the deadlines for the completion of the second stage of the project named "Construction of the Franowo tram depot in Poznań." The Applicant asked the court to schedule a trial date in order to reach an agreement with the Opponents. The Applicant proposed that the amount would be paid in instalments.

### **The biggest pending court proceeding concerning claims:**

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

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

In addition, on 29 September 2016, the Petitioner (PORR Polska Infrastructure; i.e. former BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) sued the Defendant (PKP Polskie Linie Kolejowe S.A.) for PLN 11,506,921.00 (out of which PLN 2,926,209.77 plus statutory interest was payable to ZUE) after additional works had been carried out and expenses had been incurred during the extended completion time. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POIiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

#### 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 Zabkowice - 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.

### 38. Contingent assets and contingent liabilities

#### Contingent assets

	(PLN '000)	
	As at 30-09-2016	As at 31-12-2015
Bonds	23,589	26,509
Bills of exchange	4,120	3,962
Guarantees	56	0
Mortgages	0	0
<b>Total</b>	<b>27,765</b>	<b>30,471</b>

Contingent assets resulting from bonds and guarantees include the bonds provided by banks and insurance companies for the benefit of the Group companies to secure the Group's claims relating to subcontracted construction services as well as supply agreements.

#### Contingent liabilities

	(PLN '000)	
	As at 30-09-2016	As at 31-12-2015
Bonds	204,634	176,915
Guarantees	13,847	12,206
Bills of exchange	130,785	149,587
Mortgages	201,018	51,017
Pledges	5,500	19,207
<b>Total</b>	<b>555,784</b>	<b>408,932</b>

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 and supply agreements. Insurance companies and banks have recourse against the Group.

At 30 September 2016, the registered pledge of PLN 5.5m is a security for the Agreement no. 07/067/15/Z/OB entered into on 28 August 2015 between Railway gft Polska and mBank S.A.

According to the Annex no. 1 to the pledge agreement of 25 August 2016, an application was filed to change the amount to PLN 4m. No change was made by the court by the date of preparation of this report.

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

A mortgage of PLN 150m was created in connection with the financing agreement no. WAR/2001/15/289/CB entered into with BGŻ BNP PARIBAS.

*Approval of abbreviated consolidated financial statements*

These abbreviated consolidated financial statements for the nine months ended 30 September 2016 were approved for publication by the Management Board of ZUE on 4 November 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  
.....

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

.....

Cracow, 4 November 2016



**ABBREVIATED SEPARATE FINANCIAL STATEMENTS  
FOR 9 MONTHS ENDED 30 SEPTEMBER 2016  
ZUE S.A.**

**Cracow, 4 November 2016**

### III. SELECTED FINANCIAL INFORMATION OF ZUE S.A.

Rules for translating selected financial information into EUR:

Item	Exchange rate	Exchange rate on	Exchange rate on	Exchange rate on
		30-09-2016	31-12-2015	30-09-2015
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.3120	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	4.3688	4.1848	4.1585
"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	4.3120	4.2615	4.2386

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

	As at 30-09-2016		As at 31-12-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	144,098	33,418	140,377	32,941
Current assets	225,445	52,283	267,827	62,848
<b>Total assets</b>	<b>369,543</b>	<b>85,701</b>	<b>408,204</b>	<b>95,789</b>
Equity	203,280	47,143	215,611	50,595
Non-current liabilities	27,219	6,312	27,695	6,499
Current liabilities	139,044	32,246	164,898	38,695
<b>Total equity and liabilities</b>	<b>369,543</b>	<b>85,701</b>	<b>408,204</b>	<b>95,789</b>

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

	9 months ended 30-09-2016		9 months ended 30-09-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	197,564	45,222	362,106	87,076
Cost of sales	194,307	44,476	334,138	80,350
<b>Gross profit (loss) on sales</b>	<b>3,257</b>	<b>746</b>	<b>27,968</b>	<b>6,726</b>
Profit (loss) on operating activities	-6,745	-1,544	14,901	3,583
Gross profit (loss)	-5,667	-1,297	9,607	2,310
<b>Net profit (loss) from continuing operations</b>	<b>-4,831</b>	<b>-1,106</b>	<b>7,141</b>	<b>1,717</b>

Total comprehensive income	-4,818	-1,103	7,268	1,748
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Key items of the separate statement of cash flows translated into EUR:

	9 months ended 30-09-2016		9 months ended 30-09-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-47,604	-10,896	-53,198	-12,792
Cash flows from investing activities	-6,181	-1,415	-8,926	-2,146
Cash flows from financing activities	-9,478	-2,169	-7,709	-1,854
<b>Total net cash flows</b>	<b>-63,263</b>	<b>-14,480</b>	<b>-69,833</b>	<b>-16,792</b>
Cash at the beginning of the period	169,795	39,844	71,116	16,685
Cash at the end of the period	106,774	24,762	1,286	303

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

##### Separate statement of comprehensive income

(PLN '000)

Continuing operations	9 months ended	3 months ended	9 months ended	3 months ended
	30-09-2016	30-09-2016	30-09-2015	30-09-2015
Revenue	197,564	85,662	362,106	159,355
Cost of sales	194,307	86,800	334,138	148,367
<b>Gross profit (loss) on sales</b>	<b>3,257</b>	<b>-1,138</b>	<b>27,968</b>	<b>10,988</b>
General and administrative expenses	12,293	3,527	13,245	4,352
Other operating income	3,677	822	4,446	734
Other operating expenses	1,386	827	4,268	1,023
<b>Profit (loss) on operating activities</b>	<b>-6,745</b>	<b>-4,670</b>	<b>14,901</b>	<b>6,347</b>
Financial income	1,817	-41	566	124
Financial expenses	739	256	5,860	2,454
<b>Pre-tax profit (loss)</b>	<b>-5,667</b>	<b>-4,967</b>	<b>9,607</b>	<b>4,017</b>
Corporate income tax	-836	-832	2,466	1,143
<b>Net profit (loss) from continuing operations</b>	<b>-4,831</b>	<b>-4,135</b>	<b>7,141</b>	<b>2,874</b>
<b>Net profit (loss)</b>	<b>-4,831</b>	<b>-4,135</b>	<b>7,141</b>	<b>2,874</b>
<b>Other net comprehensive income</b>				
<b>Items that will not be reclassified subsequently to profit or loss:</b>	<b>13</b>	<b>0</b>	<b>127</b>	<b>0</b>
Remeasurement of liabilities under employee benefits	13	0	127	0
<b>Other total net comprehensive income</b>	<b>13</b>	<b>0</b>	<b>127</b>	<b>0</b>
<b>Total comprehensive income</b>	<b>-4,818</b>	<b>-4,135</b>	<b>7,268</b>	<b>2,874</b>
Weighted average number of shares	23,030,083	23,030,083	23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)	-0.21	-0.18	0.31	0.12
Total comprehensive income per share (PLN)	-0.21	-0.18	0.32	0.12

Separate statement of financial position

	As at 30-09-2016	(PLN '000) As at 31-12-2015
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	78,917	77,985
Investment property	7,465	7,822
Intangible assets	9,231	9,638
Goodwill	31,172	31,172
Investments in subordinates	210	239
Advance payments for investments in subordinates	0	0
Long-term receivables	0	0
Retentions on construction contracts	6,947	5,288
Deferred tax assets	10,156	8,233
Other assets	0	0
<b>Total non-current assets</b>	<b>144,098</b>	<b>140,377</b>
<b>Current assets</b>		
Inventories	16,515	18,368
Trade and other receivables	98,992	73,889
Retentions on construction contracts	1,376	602
Current tax assets	923	3,954
Other financial receivables	0	0
Other assets	548	1,061
Loans advanced	317	158
Cash and cash equivalents	106,774	169,795
<b>Total current assets</b>	<b>225,445</b>	<b>267,827</b>
<b>Total assets</b>	<b>369,543</b>	<b>408,204</b>



	As at 30-09-2016	As at 31-12-2015
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	5,758	5,758
Share premium account	93,837	93,837
Treasury shares	-2,690	-2,690
Retained earnings	106,375	118,706
<b>Total equity</b>	<b>203,280</b>	<b>215,611</b>
<b>Non-current liabilities</b>		
Long-term bank borrowings and other debt instruments and other financing sources	9,960	11,155
Retentions on construction contracts	8,059	7,991
Other financial liabilities	0	0
Liabilities under employee benefits	701	697
Deferred tax liabilities	0	0
Long-term provisions	7,799	6,942
Deferred revenue	0	0
Other liabilities	700	910
<b>Total non-current liabilities</b>	<b>27,219</b>	<b>27,695</b>
<b>Current liabilities</b>		
Trade and other payables	99,802	112,381
Retentions on construction contracts	9,003	11,668
Short-term bank borrowings and other debt instruments and other financing sources	6,422	6,111
Other financial liabilities	37	37
Liabilities under employee benefits	16,491	21,947
Current tax liabilities	0	0
Short-term provisions	7,289	12,754
<b>Total current liabilities</b>	<b>139,044</b>	<b>164,898</b>
<b>Total liabilities</b>	<b>166,263</b>	<b>192,593</b>
<b>Total equity and liabilities</b>	<b>369,543</b>	<b>408,204</b>

Separate statement of changes in equity

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
<b>Balance at</b>	<b>1 Jan 2016</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>118,706</b>	<b>215,611</b>
Dividend		0	0	0	-7,513	-7,513
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Repurchase of shares		0	0	0	0	0
Profit (loss) for the year		0	0	0	-4,831	-4,831
Other net comprehensive income		0	0	0	13	13
<b>Balance at</b>	<b>30 Sep 2016</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>106,375</b>	<b>203,280</b>

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
<b>Balance at</b>	<b>1 Jan 2015</b>	<b>5,758</b>	<b>93,837</b>	<b>0</b>	<b>103,369</b>	<b>202,964</b>
Dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Repurchase of shares		0	0	-2,661	0	-2,661
Profit (loss) for the year		0	0	0	7,141	7,141
Other net comprehensive income		0	0	0	127	127
<b>Balance at</b>	<b>30 Sep 2015</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,661</b>	<b>110,637</b>	<b>207,571</b>

## Separate statement of cash flows

	(PLN '000)	
	9 months ended 30-09-2016	9 months ended 30-09-2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit / (loss) before tax</b>	<b>-5,667</b>	<b>9,607</b>
<b>Adjustments for:</b>		
Depreciation and amortisation	6,843	6,516
Foreign exchange gains / (losses)	-242	-3
Interest and share in profit (dividends)	-735	4,752
(Gain) / loss on disposal of investments	-134	2,222
Accrued expenses under commission on loans	0	156
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
<b>Operating profit before changes in working capital</b>	<b>65</b>	<b>23,250</b>
Change in receivables and retentions on construction contracts	-27,573	-92,347
Change in inventories	1,852	-13,873
Change in provisions and liabilities under employee benefits	-10,061	10,019
Change in retentions on construction contracts and liabilities, excluding borrowings, other debt instruments and other financing sources	-14,342	20,412
Change in accrued expenses	514	995
Change in funds of limited availability	0	0
Other adjustments	0	240
Income tax paid / (refunded)	1,941	-1,894
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>-47,604</b>	<b>-53,198</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of property, plant and equipment and intangible assets	366	4,305
Purchase of property, plant and equipment and intangible assets	-7,592	-7,984
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	-4,059
Purchase of financial assets available for sale	0	-2,661
Loans advanced	-315	-1,825
Repayment of loans advanced	74	2,815
Dividends received	0	0
Interest received	1,286	480
Settlement of financial instruments – expenses	0	0
Other cash provided by / (used in) investing activities	0	0
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>-6,181</b>	<b>-8,926</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings and other debt instruments received	3,790	0
Repayment of borrowings and other debt instruments	0	-3,833
Decrease in finance lease liabilities	-5,450	-3,553
Interest paid	-305	-321

Other cash provided by / (used in) financing activities – dividends	-7,513	-2
Net cash provided by issue of shares	0	0
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-9,478</b>	<b>-7,709</b>
<b>TOTAL NET CASH FLOWS</b>	<b>-63,263</b>	<b>-69,833</b>
Net foreign exchange gains / (losses)	242	3
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>169,795</b>	<b>71,116</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>106,774</b>	<b>1,286</b>

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

**1. General**

**Information about the Company**

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

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

Management Board:

Wiesław Nowak	Management Board President
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 Chairperson
Magdalena Lis	Supervisory Board Vice-Chairperson
Bogusław Lipiński	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 presented in thousands of Polish złoty, unless specific situations require greater detail.

## 2. Use of International Financial Reporting Standards

### Statement of compliance

The abbreviated separate financial statements have been drawn up in accordance with the requirements of the International Financial Reporting Standards at 30 September 2016 as endorsed by the European Union (EU).

The separate financial statements for the nine months ended 30 September 2016 have been prepared according to the requirements binding on public companies.

### Amendments to existing standards and interpretations used for the first time in the reporting period

The following amendments to existing standards and the interpretation published by the International Accounting Standards Board and approved for use in the European Union come into force in the Company's financial statements for 2016:

- **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) – approved of in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 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"** – 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 abovementioned amendments to existing standards or the interpretation did not have any material influence on the Company's financial statements for 2016.

***New standards and amendments to existing standards published by the IASB and approved of by the EU but not yet effective***

When approving these financial statements, there were no new standards or amendments to existing standards published by the IASB and approved of by the EU but not yet effective.

**New standards and amendments to existing standards published by the IASB but not yet approved of by the EU**

The International Financial Reporting Standards (IFRS) as endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the standards not yet approved for use in the EU at this report preparation 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 issued;
- **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 2 “Share-based payment”** – Classification and Measurement of Share-based Payment transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 “Insurance Contracts”** – Use of IFRS 9 “Financial Instruments” and IFRS 4 “Insurance Instruments” (effective for annual periods beginning on or after 1 January 2018 or upon the use of IFRS 9 “Financial Instruments” for the first time);
- **Amendments to IFRS 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).

The influence of these amendments on future separate financial statements of the Company is being analysed.

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, 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 Company at the end of the reporting period.

### **3. Important accounting principles**

#### **Going concern**

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

#### **Preparation basis**

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

#### **Comparability of financial information**

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

#### **Applied accounting principles**

These quarterly separate financial statements for the nine months ended 30 September 2016 have been prepared according to the same accounting principles and measurement methods as those used in the last annual financial statements of ZUE as at 31 December 2015. The financial statements for the financial year ended 31 December 2015 contain a detailed description of accounting principles used by the Company.

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

#### **4. Revisions to estimates**

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

#### **Provisions**

	(PLN '000)					
Provisions	01-01-2016	Created	Used	Released	Reclassified	30-09-2016
<b>Non-current provisions:</b>	<b>7,639</b>	<b>756</b>	<b>31</b>	<b>415</b>	<b>-551</b>	<b>8,500</b>
Provisions for employee benefits	697	4	0	0	0	701
Provisions for warranty claims	6,942	752	31	415	-551	7,799
Other provisions	0	0	0	0	0	0
<b>Current provisions:</b>	<b>29,131</b>	<b>13,475</b>	<b>13,233</b>	<b>10,710</b>	<b>551</b>	<b>18,112</b>
Provisions for employee benefits	16,377	9,621	12,890	2,285	0	10,823
Provisions for warranty claims	9,191	50	343	4,141	551	4,206
Provision for loss on contracts	1,996	3,804	0	2,784	0	3,016
Other provisions	1,567	0	0	1,500	0	67
<b>Total provisions:</b>	<b>36,770</b>	<b>14,231</b>	<b>13,264</b>	<b>11,125</b>	<b>0</b>	<b>26,612</b>

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Company. The amount of the provision depends on the amount of revenues taking account of the liability of subcontractors for the works they have been entrusted with. During the contract performance, provisions for warranty claims are recognised in costs of sales on the basis on the proportion of costs incurred. 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 provisions for employee benefits, short-term liabilities under employee benefits include liabilities relating to salaries and social security premiums.



Provisions for loss on contracts are 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	30-09-2016
Deferred tax assets	20,798	5,330	0	26,128
Deferred tax liability	12,565	3,407	0	15,972
<b>Balance of assets and liabilities</b>	<b>8,233</b>			<b>10,156</b>

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 30-09-2016	As at 31-12-2015
Trade receivables	77,662	71,000
Trade receivables write-downs	-15,672	-14,167
Receivables from the state budget other than corporate income tax	2	2
Receivables under contracts (measurement)	32,952	13,825
Advance payments	3,558	2,973
Other receivables	490	256
<b>Total trade and other receivables</b>	<b>98,992</b>	<b>73,889</b>

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

	(PLN '000)	
	As at 30-09-2016	
Counterparty A		39,157
		<b>39,157</b>

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 ZUE believe there is no need to create additional allowances.

## 6. Trade and other payables

	(PLN '000)	
	As at 30-09-2016	As at 31-12-2015
Trade payables	30,310	39,251
Liabilities to the state budget other than corporate income tax	3,489	5,447
Accruals	62,504	52,358
Liabilities under contracts (measurement)	3,393	14,346
Other payables	106	979

<b>Total trade and other payables</b>	<b>99,802</b>	<b>112,381</b>
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Accruals include, in particular, provisions for the costs of subcontractors and provisions for claims under contracts.

The Management Board's evaluation of provisions concerning the risks relating to the settlement of the *Franowo Depot* contract did not change when compared with the previous year.

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

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

## **8. Discontinued operations**

No operations were discontinued within the meaning of the IFRS 5 during the nine months ended 30 September 2016 or the nine months ended 30 September 2015.

## **9. Issue and redemption of debt and equity instruments**

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

## **10. 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 abovementioned recommendations were approved of by the Company's Supervisory Board.

On 25 May 2016, the Ordinary General Meeting of ZUE resolved to allocate the net profit generated by the Company in 2015 according to the abovementioned recommendations. The right to dividend for 2015 was determined as at 13 June 2016 and the payment date was set at 23 June 2016.

The said distribution did not include any treasury shares acquired by the Company on the basis of the Resolution no. 4 passed by the Extraordinary General Meeting on 8 December 2014.

## **11. Investments in non-current assets**

By the date of preparation of this report, the Company made a number of investments in non-current assets of the total value of PLN 6,976 thousand out of which, the investments of the total value of PLN 6,976 thousand were made in the three quarters of 2016.

The assets purchased by the Company include:

- Diesel engine;
- Complete overhauls of dump cars; and
- Cars.

## **12. Segment reporting**

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

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

### 13. Transactions with related entities

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

(PLN '000)

	Receivables		Payables	
	As at		As at	
	30-09-2016	31-12-2015	30-09-2016	31-12-2015
Railway GFT	254	4,435	11,129	40
BPK Poznań	3	9	1,125	2,253
RTI	0	1	0	0
RTI Germany	0	0	0	19
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>257</b>	<b>4,445</b>	<b>12,254</b>	<b>2,312</b>

	Revenue		Purchases	
	Period ended		Period ended	
	30-09-2016	30-09-2015	30-09-2016	30-09-2015
Railway GFT	503	18,021	42,845	10,837
BPK Poznań	440	267	648	4,700
RTI	3	9	0	0
RTI Germany	0	0	113	664
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>946</b>	<b>18,297</b>	<b>43,606</b>	<b>16,201</b>

	Advanced loans		Financial income (interest on loans)	
	As at		As at	
	30-09-2016	31-12-2015	30-09-2016	30-09-2015
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	58
RTI	0	158	0	4
RTI Germany	36	0	0	0
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>36</b>	<b>158</b>	<b>0</b>	<b>62</b>

	Received loans		Financial expenses (interest on loans)	
	As at		As at	
	30-09-2016	31-12-2015	30-09-2016	30-09-2015
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
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

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

- Design services;
- Lease of rooms, including utilities and phone services;
- Financial services;
- Sale of materials;
- Equipment services; and
- Transport services.

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

- Zakupu materiałów stosowanych przy budowie i remontach torowisk,
- Purchase of materials used in connection with the construction and repairs of tracks;
- Design services;
- Market research services;
- Printing services;
- Equipment services;
- Transport services; and
- Logistic services.

In the three quarters of 2016, RTI leased business establishments from ZUE on the basis of the lease signed on 31 December 2015.

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

On 31 May 2016, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 5.4 thousand to be repaid by 20 June 2017. The amount of the loan was changed under an annex to EUR 13 thousand. The loan was advanced in instalments according to the schedule. The amount of EUR 8.4 thousand was paid by the end of the reporting period. The amount of EUR 2 thousand was advanced on 6 October 2016.

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

At the end of the third quarter of 2016, the value of guarantees provided to secure transactions entered into by subsidiaries is PLN 13.8m and the value of guarantees provided to secure sales transactions entered into by subsidiaries is PLN 10,000 thousand and EUR 311 thousand.

#### **14. Court proceedings**

At the date of preparation of this report, the Company is a party to the pending court proceedings concerning the Company's claims and liabilities of the total value of PLN 38,070,107.10; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 2,450,687.66 and the total value of the proceedings concerning claims is PLN 35,619,419.44.

The pending court proceedings are related to Company's operating activities. Section 37 of the consolidated financial statements contains a detailed description of the court proceedings.

#### **15. Contingent assets and contingent liabilities**

##### **Contingent assets**

(PLN '000)

	<b>As at</b> <b>30-09-2016</b>	<b>As at</b> <b>31-12-2015</b>
Bonds	23,589	26,509
Bills of exchange	4,364	4,266
Guarantees	0	0
Mortgages	0	0
<b>Total</b>	<b>27,953</b>	<b>30,775</b>

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

#### **Contingent liabilities**

	<b>As at</b> <b>30-09-2016</b>	<b>As at</b> <b>31-12-2015</b>
Bonds	198,108	171,290
Guarantees	13,847	12,206
Bills of exchange	113,255	148,297
Mortgages	201,018	51,018
Pledges	0	13,706
<b>Total</b>	<b>526,228</b>	<b>396,517</b>

(PLN '000)

The contingent liabilities resulting from bonds 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.

The contingent liabilities resulting from guarantees are the security for credits and bonds provided by banks and insurance companies to subsidiaries. The said credits and bonds are guaranteed by ZUE as the parent company.

The 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.

A mortgage of PLN 150m was created in connection with the financing agreement no. WAR/2001/15/289/CB entered into with BGŻ BNP PARIBAS.





*Approval of abbreviated separate financial statements*

These abbreviated separate financial statements for the nine months ended 30 September 2016 were approved for publication by the Management Board of ZUE on 4 November 2016.

Wiesław Nowak – Management Board President  
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Jerzy Czeremuga – Management Board Vice-President  
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Marcin Wiśniewski – Management Board Vice-President  
.....

Anna Mroczek – Management Board Member  
.....

Maciej Nowak – Management Board Member  
.....

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

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Cracow, 4 November 2016