



ZUE Capital Group

**CONSOLIDATED QUARTERLY REPORT
FOR 3 MONTHS ENDED 31 MARCH 2017**

Cracow, 26 April 2017

Contents of the consolidated quarterly report:

- 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 at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Journal of Laws 2000, no. 94, item 1037, as amended).

Share capital details as at 31 March 2017.

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ZUE Capital Group

**ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS
FOR
3 MONTHS ENDED 31 MARCH 2017**

Cracow, 26 April 2017

I. SELECTED FINANCIAL DATA OF THE GROUP

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

	As at 31-03-2017		As at 31-12-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	148,177	35,115	143,917	32,531
Current assets	173,465	41,107	219,456	49,606
Total assets	321,642	76,222	363,373	82,137
Equity	201,114	47,660	209,282	47,306
Non-current liabilities	24,738	5,862	25,823	5,837
Current liabilities	95,790	22,700	128,268	28,994
Total equity and liabilities	321,642	76,222	363,373	82,137

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

	Period ended 31-03-2017		Period ended 31-03-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	33,167	7,733	34,575	7,938
Cost of sales	36,236	8,449	35,252	8,093
Gross profit (loss) on sales	-3,069	-716	-677	-155
Profit (loss) on operating activities	-9,198	-2,145	-4,260	-978
Gross profit (loss)	-9,616	-2,242	-4,164	-956
Net profit (loss) from continuing operations	-8,168	-1,904	-3,503	-804
Total comprehensive income	-8,168	-1,904	-3,503	-804

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

	Period ended 31-03-2017		Period ended 31-03-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-31,022	-7,233	-26,879	-6,171
Cash flows from investing activities	11,247	2,622	-332	-76
Cash flows from financing activities	-1,819	-424	-1,621	-372
Total net cash flows	-21,594	-5,035	-28,832	-6,619
Cash at the beginning of the period	62,717	14,177	172,334	40,440
Cash at the end of the period	40,312	9,553	143,518	33,623

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate	Exchange rate	Exchange rate
		on	on	on
		31-03-2017	31-12-2016	31-03-2016
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2198	4.4240	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	4.2891	4.3757	4.3559
"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	4.2198	4.4240	4.2684

II. ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Consolidated statement of comprehensive income

(PLN '000)

Continuing operations	Period ended	Period ended
	31-03-2017	31-03-2016
Revenue	33,167	34,575
Cost of sales	36,236	35,252
Gross profit (loss)	-3,069	-677
General and administrative expenses	5,557	5,182
Other operating income	796	2,006
Other operating expenses	1,368	407
Gain on bargain purchase	0	0
Operating profit (loss)	-9,198	-4,260
Financial income	585	524
Financial expenses	1,003	428
Pre-tax profit (loss)	-9,616	-4,164
Corporate income tax	-1,448	-661
Net profit (loss) from continuing operations	-8,168	-3,503
Net profit (loss)	-8,168	-3,503
Other net comprehensive income		
Items that will not be reclassified subsequently to profit or loss:	0	0
Remeasurement of liabilities under employee benefits	0	0
Other total net comprehensive income	0	0
Total comprehensive income	-8,168	-3,503
Number of shares	23,030,083	23,030,083
Consolidated net profit attributable to:		
Shareholders of the parent	-7,940	-3,269
Non-controlling interests	-228	-234
Net profit (loss) per share (PLN) (basic and diluted)	-0.34	-0.14
Total comprehensive income attributable to:		
Shareholders of the parent	-7,940	-3,269
Non-controlling interests	-228	-234
Total comprehensive income (loss) per share (PLN)	-0.34	-0.14

Consolidated statement of financial position

(PLN '000)

	As at 31-03-2017	As at 31-12-2016
ASSETS		
Non-current assets		
Property, plant and equipment	87,748	83,416
Investment property	3,633	3,717
Intangible assets	9,437	9,595
Goodwill	31,172	31,172
Investments in non-consolidated subsidiaries	0	0
Advance payments for investments in subordinates	0	0
Long-term receivables	0	0
Retentions on construction contracts	5,979	7,334
Deferred tax assets	10,208	8,683
Other assets	0	0
Total non-current assets	148,177	143,917
Current assets		
Inventories	27,486	11,287
Trade and other receivables	60,585	86,609
Retentions on construction contracts	208	2,177
Current tax assets	64	64
Other financial assets	43,523	54,935
Other assets	1,009	1,378
Loans advanced	278	289
Cash and cash equivalents	40,312	62,717
Total current assets	173,465	219,456
Total assets	321,642	363,373
	As at	As at
	31-03-2017	31-12-2016
EQUITY AND LIABILITIES		
Equity		
Share capital	5,758	5,758
Share premium account	93,837	93,837
Treasury shares	-2,690	-2,690
Retained earnings	104,451	112,391
Total equity attributable to shareholders of ZUE	201,356	209,296
Equity attributable to non-controlling interests	-242	-14
Total equity	201,114	209,282
Non-current liabilities		
Long-term loans and bank credits and other financing sources	7,908	8,892
Retentions on construction contracts	6,192	6,792
Other financial liabilities	560	630
Liabilities under employee benefits	1,876	1,864
Deferred tax liabilities	0	0
Long-term provisions	8,202	7,645
Deferred revenue	0	0

Other liabilities	0	0
Total non-current liabilities	24,738	25,823
Current liabilities		
Trade and other payables	56,483	82,094
Retentions on construction contracts	6,894	9,185
Short-term loans and bank credits and other financing sources	13,673	14,194
Other financial liabilities	317	317
Liabilities under employee benefits	14,753	17,928
Current tax liabilities	0	0
Short-term provisions	3,670	4,550
Total current liabilities	95,790	128,268
Total liabilities	120,528	154,091
Total equity and liabilities	321,642	363,373

Consolidated statement of changes in equity

(PLN '000)

		Share capital	Share premium account	Treasury shares	Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
As at	1 Jan 2017	5,758	93,837	-2,690	112,391	209,296	-14	209,282
Change of interest in subsidiaries		0	0	0	0	0	0	0
Dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss) for the year		0	0	0	-7,940	-7,940	-228	-8,168
Other net comprehensive income		0	0	0	0	0	0	0
As at	31 Mar 2017	5,758	93,837	-2,690	104,451	201,356	-242	201,114

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

Consolidated statement of cash flows

(PLN '000)

	Period ended 31-03-2017	Period ended 31-03-2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-9,616	-4,164
Adjustments for:		
Depreciation and amortisation	2,377	2,377
Foreign exchange gains / (losses)	811	-16
Interest and share in profit (dividends)	113	-385
(Gain) / loss on disposal of investments	-108	10
Accrued expenses under commission on credits	3	0
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit (loss) before changes in working capital	-6,420	-2,178
Change in receivables and retentions on construction contracts	29,254	32,422
Change in inventories	-16,198	397
Change in provisions and liabilities under employee benefits	-3,488	-8,212
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	-34,560	-49,515
Change in accrued expenses	408	202
Change in funds of limited availability	0	0
Other adjustments	0	110
Income tax paid / tax refund	-18	-105

NET CASH FROM OPERATING ACTIVITIES	-31,022	-26,879
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	267	151
Purchase of property, plant and equipment and intangible assets	-506	-1,081
Investments in real property and intangible assets	0	0
Sale / (purchase) of financial assets in other entities	0	0
Sale / (purchase) of financial assets from non-controlling shareholders	0	0
Purchase of financial assets available for sale	0	0
Cash payments to purchase debt instruments of other entities	-126,889	0
Funds from repurchase of debt instruments of other entities	138,083	0
Loans advanced	-4	0
Repayment of granted loans	4	74
Dividends received	0	0
Interest received	75	524
Gain/loss on repurchase of debt instruments	217	0
Settlement of financial instruments – expenses	0	0
Funds from acquisition of subsidiary	0	0
Sale of financial assets in associates	0	0
Other cash provided by/(used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	11,247	-332
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	907	92

Repayment of loans and bank credits	0	0
Decrease in finance lease liabilities	-2,543	-1,574
Interest paid	-182	-139
Other cash provided by / (used in) financing activities – dividends	-1	0
Net cash from issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	-1,819	-1,621
TOTAL NET CASH FLOWS	-21,594	-28,832
Net foreign exchange gains / (losses)	-811	16
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	62,717	172,334
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	40,312	143,518

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 31 March 2017 as endorsed by the European Union (EU).

The consolidated quarterly financial statements for the three months ended 31 March 2017 have been prepared according to the requirements binding on public companies.

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

When approving these financial statements, there were no amendments to the existing standards published by the IASB and approved of by the EU but not yet effective which would come into force for the first time in the consolidated financial statements for 2017.

Standards and interpretations published and approved of by the EU but not yet effective

When approving these financial statements, the following new standards and amendments to the standards were published by the International Accounting Standards Board and approved of by the EU but did not come into force:

- **IFRS 9 "Financial Instruments"** - approved of in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective Date of IFRS 15" - approved of in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

Standards and interpretations adopted 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) save for the following new standards and amendments to the standards not yet approved for use in the EU at this report preparation date:

- **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 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 IFRS 15 “Revenue from Contracts with Customers”** – Clarifications to IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018);
- **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);
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards “Improvements to IFRSs (2014-2016 Cycle)”** – made as part of annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) aimed mainly at the resolution of inconsistencies and specification of vocabulary (amendments to IFRS 12 effective for annual periods beginning on or after 1 January 2017 and amendments to IFRS MSSF 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018);
- **International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

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 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 three months ended 31 March 2017 have been prepared according to the same accounting principles and measurement methods as those used for the last annual financial statements of the Group as at 31 December 2016. The financial statements for the financial year ended 31 December 2016 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.

Change in provisions

(PLN '000)

Provisions	2017-01-01	Created	Used	Released	Reclassified	31-03-2017	Item
Long-term provisions:	9,509	46	42	0	-565	10,078	
Provisions for employee benefits	1,864	12	0	0	0	1,876	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,645	34	42	0	-565	8,202	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	17,056	2,715	5,776	423	565	13,007	
Provisions for employee benefits	12,506	2,688	5,767	90	0	9,337	Liabilities under employee benefits (short-term)
Provisions for warranty claims	3,233	27	9	0	565	2,686	Short-term provisions
Provision for loss on contracts	46	0	0	322	-1,007	731	Short-term provisions
Other provisions	1,271	0	0	11	1,007	253	Short-term provisions
Total provisions:	26,565	2,761	5,818	423	0	23,085	

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. 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 as well as liabilities under salaries and wages and social security premiums. A decrease in provisions for employee benefits in the reporting period is mainly a result of the payment of contract bonuses for previous years.

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

Deferred tax assets and liabilities

(PLN '000)

	2017-01-01	Created	Used	31-03-2017
Deferred tax assets	22,907	1,648	0	24,555
Deferred tax liability	14,224	123	0	14,347
Balance of assets and liabilities	8,683			10,208

Deferred tax is presented by the Group companies according to its netted balance (IAS 12).

Operational information

5. Composition of the Capital Group and its core business

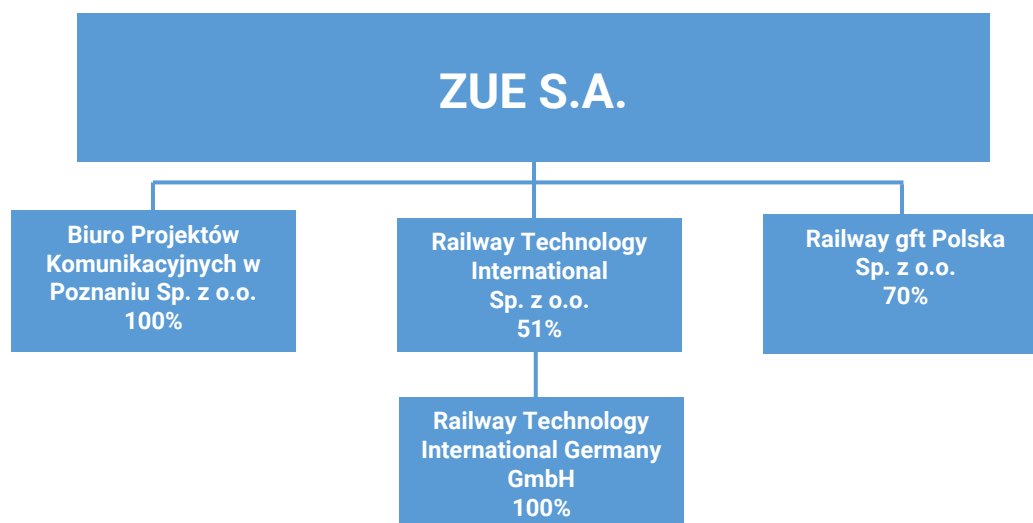
At the end of the reporting period, the Capital Group is composed of ZUE S.A. (parent company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o and Railway Technology International Germany GmbH (indirect subsidiary).

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 31 March 2017:

Company	Registered office	Interest as at		Consolidation method
		31 March 2017	31 December 2016	
ZUE S.A.	Cracow	Parent company	Parent company	
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	70%	70%	Full

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

ZUE holds a 51% interest in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated as at 31 March 2017.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Germany GmbH was not consolidated as at 31 March 2017.

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

No changes to the Group's structure occurred in the first quarter of 2017.

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 construction services were mainly provided to:

- PKP Polskie Linie Kolejowe S.A. The following contacts were performed by ZUE:
 - Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III;"
 - 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;
 - 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 Trzebnia – 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 Strzemieszycze – 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 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;"
 - 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;"
 - 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;"
 - 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 - Ilawa - Olsztyn – Korsze section."
 - Provision of design services and completion of works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola."
- Tramwaje Warszawskie Sp. z o.o. The following contact was performed by ZUE: 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.
 - Tramwaje Szczecińskie Sp. z o.o. – performance of the following contract: Design and supply of equipment and performance of construction work consisting in the replacement of hand-operated drives for electrical drives for two switches built into tram lines at the intersection of the Piastów Avenue and the Jagiellońska Street in Szczecin.
 - Miejskie Przedsiębiorstwo Komunikacyjne S.A. w Krakowie – performance of the following contracts: “Construction of a new depot for the underfloor wheel lathe and accessory equipment” and “Works to ensure the smooth and efficient functioning of tracks, switches, overhead contact lines in Podgórze Tram Maintenance Depot and the Nowa Huta Tram Depot of Miejskie Przedsiębiorstwo Komunikacyjne Spółka Akcyjna w Krakowie (Kraków City Public Transport Corporation) as well as managing the ongoing operation of the medium voltage power-supply system from (15 kV) branch stations OS-1, OS-2, OS-4 as well as the container transformer station in Nowa Huta Tram Depot.”
 - Municipal Council of Elbląg: “Reconstruction of the regional road no. 504, stage II – construction of tracks and tramway traction in the Gen. Grota Roweckiego and 12 Lutego Streets in Elbląg.”
 - Lublin City: “Construction of trolleybus overhead contact lines in the Jana Pawła II Street from the Granitowa Street up to Al. Kraśnicka, on Al. Kraśnickiej from the Jana Pawła II Street up to the trolleybus terminus at the intersection of the Jana Pawła II Street and the Granitowa Street, as well Węglin trolleybus substation, power supply connections for trolleybus stops in the Jana Pawła II Street, as well as trolleybus stop shelters in the Muzyczna and the Jana Pawła II Streets in Lublin.”
 - Other contracts:
 - Modernisation of the *Bieńczyce* traction substation in Cracow;
 - Control and switch-point heating systems as well as installation of overhead contact lines - within the framework of the following task: “Modernisation of track system at the Kocmyrzowskie Roundabout hub together with auxiliary infrastructure;”
 - Park & Ride Biezanów.

Design services relating to urban and rail communication systems are provided both to investors and companies, which execute “design-build” projects. The biggest clients of BPK Poznań in the reporting period included: PKP Polskie Linie Kolejowe S.A., Poznańskie Inwestycje Miejskie, Tramwaje Warszawskie Sp. z o.o., MPK Poznań Sp. z o.o., Urząd Miasta Brwinów [*the Municipal Council of Brwinów*], Euroconsult sp. z o.o. and MZK Bydgoszcz.

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 book of orders is approx. PLN 948m, including construction and assembly services worth approx. PLN 933m, and provides it with an ability to provide the services in the period 2017-2020. As for design services, the net value of the signed contracts is PLN 14m. The book of orders for the supply of materials and equipment in the subsequent quarters is worth PLN 1m (net).

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

- Maintenance and repair of tram infrastructure in Cracow in the period 2015-2018. Net value attributable to ZUE is PLN 42,590 thousand;
- Design and completion of construction works as well as modernisation 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 E 30/C-E 30 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 is PLN 36,585 thousand;

- Construction works on Kościelniki – Podłęże line no. 95. Net value attributable to ZUE is PLN 27,352 thousand;
- Provision of design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: "Investment project at the Medyka - Mościska II border crossing." Net value attributable to ZUE is PLN 41,461 thousand;
- Provision of design services and completion of works 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: "Modernisation of Radom – Kielce railway line no. 8. Net value attributable to ZUE is PLN 25,807 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 Pom - Iława - Olsztyn – Korsze section." Net value attributable to ZUE is PLN 27,882 thousand;
- Provision of design services and completion of construction works in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of 2014 – 2020 Infrastructure and Environment Operational Programme (IEOP). Net value attributable to ZUE is PLN 124,500 thousand;
- Provision of design services and completion of construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section)." Net value attributable to ZUE is PLN 52,700 thousand;
- Provision of design services and completion of works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola." Net value attributable to ZUE is PLN 281,000 thousand;
- Completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF) EU financial instrument. Net value attributable to ZUE is PLN 233,000 thousand;
- Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow." Net value attributable to ZUE is PLN 49,470 thousand;
- Preparation of building and detailed designs and the completion of LOT B works as part of *Design and Build* project in connection with the Infrastructure and Environment Operational Programme (POLiŚ) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II. Net value attributable to ZUE is PLN 71,900 thousand.

The total value of the construction contracts signed by ZUE in the reporting period is approx. PLN 471m. The total value of the construction contracts signed by ZUE by this report preparation date is approx. PLN 833m. Most of the contracts won in 2017 are at the initial state and have not generated revenue in the reporting period.

At the date of preparation of this financial report, ZUE submitted the lowest price tenders in the following major tender proceedings:

Tender	Net value	Net value for ZUE	Selection of the MEAT
	(PLN m)	(PLN m)	
Development of design documentation and completion of construction works on the Kraków Płaszów – Podbory Skawińskie section as part of the following project: "Works on the railway line no. 94 of the Kraków Płaszów – Skawina – Oświęcim section."	155.9	155.9	
Design and construction services in connection with the following project: "Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section" executed as part of Eastern Poland Operating Programme."	378.8	378.8	

Design and construction services in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.2 – 4 “Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section.”	174.5	174.5	21 March 2017
Preparation of design documentation and completion of construction works in connection with a <i>Design-Build</i> contract as part of the following project: “Works on the railway line no. 1 of the Częstochowa – Zawiercie section.”	371.6	371.6	
Reconstruction of the Basztowa Street in Cracow and reconstruction of tramway tracks, OCL network and dehydrating and lightening system as well as reconstruction of colliding technical infrastructure and reconstruction of tramway tracks in the intersection of the Basztowa -Długa and Westerplatte Streets.	22.1	13.2	
TOTAL	1,102.9	1,094.0	

Regardless of this, the Issuer participates (either independently or as a consortium member) in tender procedures for the estimated total amount of approx. PLN 4.4bn.

11. Major achievements or failures

In 2017, the Company won a number of construction contracts as a result of which the value the order book for the Group's major segment was significantly boosted. However, the contracts were at an early stage and did not generate income. Thus, the results for the first quarter of 2017 reflected the expenses incurred to maintain the workload potential required to perform the new contracts. Consequently, losses were recognized in the income statement. In addition, the results for the reporting period were influenced by the seasonal nature of the construction industry whose performance is poor in the first months of a year.

By this report preparation date, no major events occurred other than the events described in detail in sections 12 and 13 below.

12. Major events of the reporting period

Construction contracts:

On 20 January 2017, the consortium of Trakcja PRKil S.A. (Leader), COMSA S.A., ZUE S.A., STRABAG sp. z o.o. and STRABAG Rail a.s entered into the design and construction contract with PKP PLK 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 the Infrastructure and Environment Operational Programme (IEOP) 5.2-5. The Company informed about the submission of the lowest price tender for the said project and the selection of the most economically advantageous tender in the current report 50/2016 and the current report 56/2016, respectively. The contract net value: 373.7m. The contract gross value: PLN 459.7m. The expected net remuneration attributable to the Company: PLN 124.5m. The project completion date: 30 months of the contract conclusion date. **(Current report 4/2017)**

On 24 January 2017, the Company learnt about the selection by PKP PLK of the tender submitted by the consortium of Strabag sp. z o.o. (Leader), Strabag Rail GmbH, Strabag Rail a.s, Strabag Általános Építő Kft., ZUE S.A. and Budimex S.A. as the most economically advantageous offer in the tender procedure for the preparation of building and detailed designs and the completion of LOT B works as part of *Design and Build* project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II. The Company informed about the submission of the lowest price tender in the said tender procedure in the current report 61/2016. Net value of the tender submitted by the consortium: PLN 216.7m. The expected remuneration attributable to the Company: 33% of the net value. Gross value of the tender: PLN 266.5m. The project completion date: 43 months of the contract conclusion date. **(Current report 5/2017)**

On 17 February 2017, the consortium of Budimex S.A. (Leader), STRABAG sp. z o.o., STRABAG Rail a.s, STRABAG Rail GmbH, STRABAG Általános Építő Kft. and the Company signed the design and construction contract with PKP PLK for the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia - Warszawa Gdańska section)." The Company informed about the selection of the consortium's tender as the most economically advantageous offer in the current report 53/2016. Net value of the contract: PLN 159.7m. The expected net remuneration attributable to the Company: PLN 52.7m. Project completion date: 26 months of the commencement of works. **(Current report 10/2017)**

On 23 February 2017, the Company informed that that the 90-day period of being bound by the tender had expired on 22 February 2017. The said tender was submitted in the tender procedure for the following project: "Preparation of design documentation and obtaining necessary administrative decisions as well as the construction of KST tram line, stage III (os. Krowdrza Górka – Górka Narodowa) and a two-level interchange along the Opolska Street in Cracow together with accompanying road infrastructure" (the "Project"). The Company informed about the submission of the lowest price tender in the current report 57/2016. At the request of the Contracting Authority; i.e. Zarząd Infrastruktury Komunalnej i Transportu w Krakowie, the Company intended to approve by the date specified by the Contracting Authority; i.e. 22 February 2017, of the extension of the said 90-day period by 60 days and extend the expiry date of the bid bond on part of ZUE. Therefore, ZUE (the Consortium Leader) asked PORR Polska Infrastruktura S.A. (the Consortium Member) to give their analogous approval necessary to extend the 90-day period for the entire Consortium and the expiry date of the bid bond on part of PORR Polska Infrastruktura S.A. PORR Polska Infrastruktura S.A. failed to give their approval to the said

extension and to provide their part of the bid bond by the date specified by the Contracting Authority; i.e. 22 February 2017. Consequently, the Consortium Member stopped their efforts to win the contract for reasons unrelated to the Company. The Consortium Member's failure to give their approval and to provide their part of the bid bond prevented the Consortium from participation in the tender procedure. **(Current report 11/2017)**

On 23 February 2017, the Company learnt about the Company's submission of the lowest price tender in the tender procedure for the development of design documentation and completion of construction works on the Kraków Płaszów – Podbory Skawińskie section as part of the following project: "Works on the railway line no. 94 of the Kraków Płaszów – Skawina – Oświęcim section. Net value of the tender submitted by the Company: PLN 155.9m. Gross value of the tender submitted by the Company: PLN 191.8m. Project completion date: 1065 days of the contract conclusion date. **(Current report 12/2017)**

On 10 March 2017, the Company learnt about the Company's submission of the lowest price tender in the tender procedure for the preparation of design documentation and completion of construction works in connection with a *Design-Build* contract as part of the following project: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section." Net value of the tender submitted by the Company: PLN 371.6m. Gross value of the tender submitted by the Company: PLN 457m. Project completion date: 36 months of the contract conclusion date. **(Current report 16/2017)**

On 13 March 2017, the Company and PKP PLK entered into the design and construction contract for 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." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current report 48/2016 and the current report 64/2016, respectively. The contract net value: PLN 281m. The contract gross value: PLN 345.6m. The project completion date: 38 months of the commencement of works. **(Current report 17/2017)**

On 21 March 2017, the Company learnt about the selection by PKP PLK of the tender submitted by ZUE as the most economically advantageous offer in the tender procedure for design and construction services in connection with the Infrastructure and Environment Operational Programme (*PoliŚ*) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section." The Company informed about the submission of the lowest price tender in the said tender procedure in the current report 1/2017. Tender net value: PLN 174.5m. Tender gross value: PLN 214.7m. The project completion date: 28 months of the contract conclusion date. **(Current report 19/2017)**

Financial agreements:

Following a review of provisions relating to the performance of construction contracts for the purposes of 2016 financial statements, a decision was made on 6 February 2017 to partially release a provision (the "Provision") for the risks associated with the settlement of the following contract: "Construction of the FRANOWO tram depot in Poznań" (the "Contract"). The Contract was performed on the basis of a contract entered into with Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu (the "Contracting Authority"). The Contract was performed by the Company as part of the consortium including Elektrobudowa S.A. of Katowice (Elektrobudowa). On 1 December 2016, a settlement was reached between the Company and Elektrobudowa (the "Parties") whereby any and all disputes relating to the Contract were resolved finally and amicably (the "Settlement"). The Company informed about the Settlement in the current report 58/2016. As part of the Settlement, the Parties agreed to cooperate in order to resolve any disputes with the Contracting Authority and finally settle the Contract. The Issuer's decision about a partial release of the Provision (i.e. PLN 9m) was mainly influenced by the abovementioned Settlement. **(Current report 7/2017)**

On 17 February 2017, the Company and AXA TUIr S.A. of Warsaw entered into a mandate agreement. The agreement dealt with the provision of project-related bonding products up to PLN 42m for all bonds, including up to PLN 25m for bid bonds and up to PLN 20m for a single bond. The said bonding products will be provided under a revolving facility. The agreement would remain in force until 28 February 2018. **(Current report 9/2017)**

On 8 March 2017, the Company published preliminary separate and consolidated results for 2016. **(Current report 15/2017)**

On 23 March 2017, the Company and Polska Kasa Opieki S.A. of Warsaw (PEKAO) entered into the agreement for a multi-purpose revolving credit limit up to PLN 30m (the "Limit"). The Company would be able to use the Limit as

a revolving credit up to the maximum amount of the Limit or as bank guarantees (up to the maximum amount of the Limit) of any type (including, in particular, bid bonds, performance bonds and defects liability bonds) provided at the Company's request to secure the contracts carried out by the Issuer. The Limit may also be used in USD and EUR. The Agreement would remain in force until 22 March 2018 **(Current report 20/2017)**

Corporate events:

On 3 February 2017, the Company's Supervisory Board changed the composition of the Company's Management Board. Two members of the Management Board; i.e. Ms. Anna Mroczek and Mr. Maciej Nowak were dismissed and were subsequently appointed the Vice-Presidents of the Management Board for a common three-year term. **(Current report 6/2017)**

On 15 March 2017, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2016 of PLN 1.5m to reserve funds. **(Current report 18/2017)**.

On 30 March 2017, the Company's Supervisory Board gave a favourable opinion on the Management Board's proposal whereby the entire net profit for the financial year 2016 of PLN 1.5m would be allocated reserve funds. **(Current report 21/2017)**

Other events:

On 4 January 2017, the Company learnt about the lawsuit of 30 December 2016 (the "Lawsuit") filed against PKP Polskie Linie Kolejowe S.A. (PKP PLK) by an agent of the consortium of OHL ŽS, a.s. (Leader), Swietelsky Baugesellschaft m.b.H and ZUE S.A. performing the following construction contract: Design and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III." The litigation value (the "Amount") was PLN 39.3m. The Company's total share in the Amount was approx. PLN 15.7m. **(Current report 2/2017)**

Following the acceptance on 2 March 2017 by Wytwórnia Podkładów Strunobetonowych S.A. of an order worth PLN 27m for the supply of building materials to the Issuer's subsidiary; i.e. Railway gft, the total value of agreements entered into in the 12 months between Railway gft and Wytwórnia Podkładów Strunobetonowych S.A. amounted to PLN 34m. **(Current report 13/2017)**

Following the acceptance on 6 March 2017 by Track Tec S.A. of an order worth PLN 13.4m for the supply of building materials to the Company, the total value of agreements entered into in the 12 months between the Group companies and Track Tec S.A. amounted to approx. PLN 21.7m. **(Current report 14/2017)**

13. Major events after the end of the reporting period

On 4 April 2017, the Company learnt about ZUE's submission of the lowest price tender in the tender procedure for design services and construction works in connection with the following project: "Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section" executed as part of Eastern Poland Operating Programme. Net value of the tender submitted by the Company: PLN 378.8m. Gross value of the tender submitted by the Company: PLN 465.9m. Completion date: 39 months. **(Current report 22/2017)**

On 5 April 2017, the consortium of ZUE S.A. (Leader), Budimex S.A., Strabag sp. z o.o., Strabag Rail GmbH, Strabag Rail a.s. and Strabag Általános Építő Kft. entered into the contract with PKP PLK for the completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF). The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 60/2016 and 8/2017, respectively. The Contract net value including the provisional sum: PLN 560.0m (i.e. the gross amount of PLN 688.8m). The expected net remuneration attributable to the Company: PLN 233m. Completion date: 42 months of the works commencement date. **(Current report 23/2017)**

On 6 April 2017, the consortium of ZUE S.A. (Leader), Przedsiębiorstwo Inżynieryjne "IMB-Podbeskidzie" sp. z o.o. and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. entered into the contract with Zarząd Infrastruktury Komunalnej i Transportu w Krakowie for the completion of the following project: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 62/2016. The Contract net value including the provisional sum: PLN 145.5m (i.e. the gross amount of PLN 179m). The expected net remuneration attributable to the Company: PLN 49.5m. Completion date: 31 December 2019 (**Current report 24/2017**)

On 6 April 2017, an annex to the revolving facility agreement of 15 October 2014 with TU Europa S.A. was signed whereby the limit was raised from PLN 10m to PLN 20m.

Following the acceptance on 10 April 2017 by Railway gft of the Company's order for the supply of building materials, the total value of agreements entered into since 15 December 2016 between the Company and Railway gft amounted to PLN 21.3m. (**Current report 25/2017**)

On 10 April 2017, an annex was signed to the financing agreement concluded with BGŻ BNP Paribas S.A. on 10 December 2015. Under the said annex, the security in the form of mortgage was replaced with a deposit and the term of the bond line agreement was extended by two years until 8 December 2027.

On 11 April 2017, the consortium of Strabag sp. z o.o. (Leader), Strabag Rail GmbH, Strabag Rail a.s, Strabag Általános Építő Kft., ZUE S.A. and Budimex S.A. entered into the contract with PKP PLK for the preparation of building and detailed designs and the completion of LOT B works as part of a *Design and Build* project in connection with the Infrastructure and Environment Operational Programme (*POIiŚ*) 5.1-3: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II. The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 61/2016 and 5/2017, respectively. The Contract net value including the provisional sum: PLN 216.7m (i.e. the gross amount of PLN 266.5m). The expected net remuneration attributable to the Company: PLN 71.9m. Completion date: 43 months of the works commencement date. (**Current report 26/2017**)

On 24 April 2017, the Company published preliminary separate and consolidated results for the first quarter of 2017 (**Current report 27/2017**)

14. 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.

At 31 March 2017, the value of unused bond lines is PLN 285,615 thousand for the Group and PLN 283,760 thousand for ZUE.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the guarantees as at 31 March 2017 is PLN 24,123 thousand.

In addition, ZUE provided payment guarantees of PLN 10,000 thousand to secure transactions entered into by subsidiaries.

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 also provided to secure the performance of contracts (e.g. the supply of railway switches). The value of the Group's contingent assets as at 31 March 2017 is PLN 33,831 thousand.

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

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

year include:

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

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

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

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

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

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

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

- **Higher fees charged by subcontractors**

When performing its contracts, the Group subcontracts certain construction and assembly tasks to specialised companies. Changing prices of raw materials and liquid fuels entail a risk relating to the estimation of costs incurred by subcontractors and, consequently, have a direct influence on the fees charged by subcontractors. This has a negative impact on the Group's financial results. A greater number of tenders whose announcement is expected in the subsequent quarters of 2017 may have a negative influence on the Group's ability to engage certain subcontractors.

- **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.

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

No unusual factors or events occurred in the reporting period.

17. 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. In addition, changes in VAT launched at the beginning of 2017 including, in particular, reverse charges for several dozen of construction services may result in poorer financial liquidity of construction companies.

- **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. Another risk includes, for instance, a consortium partner's failure to maintain their bid (extend the bid bond) as a result of which a contract with a specific investor could not be signed and consequently, potential revenue would be lost.

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

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

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

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

- **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.

18. 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.

19. Strategic objectives

The Group's strategic objectives include:

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

The main strategic objective in 2017-2020 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

20. 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
Anna Mroczek	Management Board Vice-President
Jerzy Czeremuga	Management Board Vice-President
Maciej Nowak	Management Board Vice-President
Marcin Wiśniewski	Management Board Vice-President

Supervisory Board:

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

On 3 February 2017, the Company's Supervisory Board changed the composition of the Company's Management Board. Two members of the Management Board; i.e. Ms. Anna Mroczek and Mr. Maciej Nowak were dismissed and were subsequently appointed the Vice-Presidents of the Management Board for a common three-year term. (Current report 6/2017).

21. 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.

22. Treasury shares

At the report preparation date, the Company holds 264,652 own shares worth PLN 2,690 thousand. 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 authorising the Company's Management Board to buy back own shares.

The buy-back of own shares was described in detail in note 25 of the consolidated financial statements for the year ended 31 December 2015.

23. 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.		At the date of preparation of this quarterly report; i.e.	
	26 April 2017		7 November 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
Total	23,030,083	100	23,030,083	100

* Previously Amplico OFE.

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

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

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

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

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

25. 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.

26. 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.

27. Dividend

On 15 March 2017, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2016 of PLN 1.5m to reserve funds. The Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations.

Financial information

28. Discussion of financial results

Discussion of major items of the statement of profit or loss

The Group's revenue for the period 1 January – 31 March 2017 was PLN 33,167 thousand and fell by 4% when compared with the analogous period of 2016. The Company's revenue in the first quarter of 2017 increased year-on-year by 10% and amounted to PLN 30,383 thousand. ZUE carried out lower value contracts in the reporting period and some of them were completed in the first quarter of 2017. This had an influence on the revenue reported by the Company for Q1 2017. The contracts had been won in 2016 in difficult market conditions and a smaller number of orders contributed to lower margins. The majority of the contracts signed by the Company in the first three months of 2017 were at an early stage and did not generate income, and a considerable number of completed contracts was not settled.

Given a dynamic extension of the order book and the need to win new contracts, since the beginning of 2017 ZUE has carried out an intense recruitment process and prepared its equipment to perform construction works. This generates additional costs.

The value of the contracts won by the Company in the first quarter of 2017 totalled PLN 471m and the total value of the contracts signed by the Company by this report preparation date was PLN 833m. About 92% of the said contracts were the railway contracts won as a result of recovery observed on the rail infrastructure market at the end of 2016.

Given the seasonal nature of the activities conducted by the Company, sales values reported for the first quarters of a financial year are lower when compared with yearly average results. This accompanied by a decision to maintain full operating capacity does not guarantee positive profitability trends.

The table below presents the results reported by the Group and the Company in the first quarter of 2017:

	Group (PLN '000)	ZUE (PLN '000)
Gross profit (loss)	-3,069	-3,363
EBIT	-9,198	-8,298
EBITDA*	-6,821	-5,958
Pre-tax profit (loss)	-9,616	-8,550
Net profit (loss)	-8,168	-7,023

* Operating profit + depreciation / amortisation.

The results reported for the first quarter of 2017 are significantly influenced by the settlement of lower margin contracts (the Management Board informed thereof in 2016 interim report) and, to a slight extent, by the performance of new contracts measured on a prudent basis.

The Group's general and administrative expenses between 1 January and 31 March 2017 amounted to PLN 5,557 thousand – up by 7% when compared with general and administrative expenses reported by the Group for the first quarter of 2016. The Company's general and administrative expenses the first quarter of 2017 stood at PLN 4,333 thousand – up by 3% over the figure reported for the analogous period of 2016.

In the reporting period, the Group's other operating income stood at PLN 796 thousand and decreased by 60% compared to the analogous period of 2016. Other operating expenses amounted to PLN 1,368 thousand and increased by 236% over the amount disclosed in the analogous period of 2016. Following the assessment of risks relating to trade receivables, write-downs of PLN 1,313 thousand were recognised by the Group.

The Group's financial income in the first quarter of 2017 was PLN 585 thousand and increased year-on-year by 12%. Financial expenses amounted to PLN 1,003 thousand and increased by 134% over the figure reported in the analogous period of 2016. The increase in financial expenses was mainly influenced by unrealised foreign exchange gains/losses which occurred as a result of cash measurement at the end of the reporting period.

Discussion of major items of the statement of financial position

As at 31 March 2017, the Group's total assets and liabilities stood at PLN 321,642 thousand and decreased by 11% when compared with the figure reported at the end of 2016. The Company's total assets and liabilities amounted to PLN 306,425 thousand and decreased by 11% when compared with the figure reported at the end of 2016.

Items with the biggest influence on the Group's and the Company's total assets and liabilities at the end of the first quarter of 2017 as compared with the end of 2016:

1) Current assets:

- Increase in inventories gathered to perform new contracts by PLN 15,236 thousand;
- Decrease in trade receivables by PLN 22,003 thousand as a result of the settlement of completed contracts;
- Decrease in other financial assets by PLN 11,412 thousand following the sale of a part of the bonds;
- Decrease in cash and cash equivalents by PLN 21,608 thousand as a result of the use of cash in order to finance day-to-day operating, investing and financing activities.

2) Liabilities:

- Decrease in trade and other payables by PLN 21,821 thousand as a result of the settlement of completed contracts;
- Decrease in short-term retentions on construction contracts by PLN 2,298 thousand as a result of the settlement of construction contracts;
- Decrease in liabilities under employee benefits by PLN 3,297 thousand.

As at 31 March 2017, the value of unused bond lines for the Group was PLN 285,615 thousand and for the Company, it was PLN 283,760 thousand.

As at 31 March 2017, the value of unused credit lines for the Group was PLN 66,440 thousand and for the Company, it was PLN 65,000 thousand.

Discussion of items of the statement of cash flows

The Group's cash and cash equivalents at the end of the period decreased by PLN 22,405 thousand and stood as at 31 March 2017 at PLN 40,312 thousand. The Company's cash and cash equivalents at the end of the period decreased by PLN 21,608 thousand and amounted as at 31 March 2017 to PLN 39,599 thousand.

The amount of cash decreased when compared with the end of 2016 after cash had been used to finance day-to-day operating, investing and financing activities.

The balance of the abovementioned cash did not include the bonds. The bonds were presented as separate items in the statement of cash flows. At the end of the reporting period, the Group/the Company held short-term bank bonds of PLN 43,523 thousand.

Discussion of results reported by segments

Construction activities conducted at the Group by ZUE produced in the first quarter of 2017 a net loss of PLN 7,023 thousand (gross loss on sales of PLN 3,363 thousand). Sales activities conducted in the reporting period by Railway gft saw a net loss of PLN 733 thousand (gross profit on sales of PLN 75 thousand). Like the construction activities conducted by ZUE, the sales segment was influenced by the downturn in the Polish rail and urban infrastructure market. Design activities are conducted at the Group by BPK Poznań. In Q1 2017, the segment reported a gross profit on sales of PLN 197 thousand and a net loss of PLN 425 thousand.

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

The Company did not publish any forecast financial results for 2017.

30. Trade and other receivables

(PLN '000)

	As at 31-03-2017	As at 31-12-2016
Trade receivables	39,983	70,476
Write-downs of trade receivables	-16,515	-15,229
Receivables from the state budget other than corporate income tax	8,020	6,332
Receivables under contracts (measurement)	25,592	22,211
Advance payments	3,180	2,563
Other receivables	325	256
Total trade and other receivables	60,585	86,609

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

(PLN '000)

	As at 31-03-2017
Counterparty A	7,987
Counterparty B	7,003
Counterparty C	6,330
Total	21,320

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.

31. Trade and other payables

(PLN '000)

	As at 31-03-2017	As at 31-03-2016
Trade payables	33,646	58,089
Liabilities to the state budget other than corporate income tax	1,067	1,082
Accruals	18,895	21,231
Liabilities under contracts (measurement)	1,245	1,586
Other payables	1,630	106
Total trade and other payables	56,483	82,094

Accruals include, in particular, provisions for the expenses associated with subcontractors and provisions for contract settlement risks.

32. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the three months ended 31 March 2017 or the three months ended 31 March 2016.

33. Investments in non-current assets

The total capital expenditure incurred by the Group in the first quarter of 2017 amounted to PLN 6,814 thousand.

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

(PLN '000)

Investments in non-current assets				
Item:	Own funds	Leases	Credits	Total
Intangible assets, including:	17	0	0	17
- Leasehold land	0	0	0	0
Property, plant and equipment, including:	6,650	61	0	6,711
- buildings and structures	0	0	0	0
- plant and equipment	56	0	0	56
- vehicles	6,572	61	0	6,633
- other	22	0	0	22
Non-current assets under construction	86	0	0	86
Investment property	0	0	0	0
Equity investments	0	0	0	0
Total domestic investments	6,753	61	0	6,814

The major investments in property, plant and equipment made by the Group in the first quarter of 2017 included:

- Purchase of four TMS-40.01 wagons (for ballast cleaning) worth PLN 5,840 thousand. The transaction was financed by own resources.
- Complete overhauls of machines and vehicles in the total amount of PLN 281 thousand.
- Purchase of cars for the total price of PLN 538 thousand. The transaction was financed by own resources and under a lease contract.
- Expenditures on Railroad Crane – PLN 30 thousand.

The Group's investments in intangible assets in Q1 2017 concerned the purchase of licence and software.

The amount recognized in the statement of cash flows is PLN 506 thousand. The difference results, *inter alia*, from payments made after the end of the reporting period.

At the date of preparation of this report, the Group invested in the following property, plant and equipment:

- Krupp 75t Railroad Crane. Expected transaction closing date: May 2017. The purchase is financed by own resources.
- Six TMS-40.01 wagons and one additional conveyor for coupling the TMS-40.01 wagon with the ballast cleaning machine RM80 UHR. The contract is continued successively until May 2017 (the total number of wagons according to the contract was ten; four wagons were purchased during the reporting period).
- Pile Driver PV 15 RPR. Expected transaction closing date: September 2017.

34. Segment reporting

The Group's reporting is based on operating segments. Given the development of design and sales activities, the Management Board of ZUE 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 months of 2017:

(PLN '000)

	Construction	Sales	Design	Exclusions	Total
Revenue	30,383	11,308	2,072	-10,596	33,167
including:					
Revenue from external customers	30,266	871	1,967	63	33,167
Inter-segment revenues	117	10,437	105	-10,659	0
Gross profit	-3,363	75	197	22	-3,069
Financial income / expenses	-252	-139	-27	0	-418
Interest received	75	0	0	0	75
Interest paid	-119	-62	-1	0	-182
Pre-tax profit	-8,550	-722	-360	16	-9,616
Corporate income tax	-1,527	11	65	3	-1,448
Net profit	-7,023	-733	-425	13	-8,168
Depreciation and amortisation	2,340	21	25	-9	2,377
Property, plant and equipment	84,643	0	169	2,936	87,748
Non-current assets	147,789	283	1,045	-940	148,177
Total assets	306,425	17,808	8,286	-10,877	321,642

35. 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	
	31-03-2017	31-12-2016	31-03-2017	31-12-2016
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	468	0
Total	0	0	468	0

	Revenue		Purchases	
	Period ended		Period ended	
	31-03-2017	31-03-2016	31-03-2017	31-03-2016
RTI	1	1	0	0
RTI Germany	0	0	0	113
Wiesław Nowak	0	0	468	0
Total	1	1	468	113

	Advanced loans		Financial income (interest)	
	As at		Period ended	
	31-03-2017	31-12-2016	31-03-2017	31-03-2016
RTI	0	0	0	0
RTI Germany	58	58	0	0
Wiesław Nowak	0	0	0	0
Total	58	58	0	0

	Received loans		Financial expenses (interest)	
	As at		Period ended	
	31-03-2017	31-12-2016	31-03-2017	31-03-2016
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

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

In the first quarter of 2017, RTI leased business establishments from ZUE on the basis of the lease of 31 December 2015.

On 2 January 2017, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 1 thousand to be repaid by 31 March 2017. The loan was advanced on 5 January 2017. The loan plus interest was repaid on 27 March 2017.

On 30 March 2017, ZUE and Mr. Wiesław Nowak entered into an agreement whereby a car was purchased by ZUE. Transaction value: PLN 468 thousand. The payment was made on 3 April 2017.

36. Court proceedings

At the date of preparation of this report, the Group is a party to the pending court proceedings concerning the Group's claims and liabilities of the total value of PLN 50,193 thousand; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 919 thousand and the total value of the proceedings concerning claims is PLN 49,274 thousand.

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

The biggest court proceeding concerning liabilities:

Case concerning the following project: "Design and execution of three rectifier substations supplying trolleybus overhead contact lines and Central Control Room in Lublin"

ZUE S.A. was sued by Sesto sp. z o.o. for PLN 456,048.58 plus statutory interest. The Company was supposed to pay the amount under the following design contract entered into with the Petitioner: "Design and execution of three rectifier substations supplying trolleybus overhead contact lines and Central Control Room in Lublin." The payment was not made by the Company because the Petitioner had been charged contractual penalties by ZUE in the amount equivalent to the abovementioned sum enforced by the Petitioner. Thus, the contractual penalties were set off against the sum. However, the contractual penalties proved too low and the Company sued the Petitioner for PLN 313,714.08 plus statutory interest. The first instance court recognized the claim of the Petitioner and rejected the claim of the Company. ZUE disagreed with the court's judgment and appealed against it.

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 Petitioners was too high in case the said motion for the dismissal was rejected.

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

In addition, on 29 September 2016, the Petitioner (PORR Polska Infrastructure; i.e. former BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) sued the Defendant (PKP Polskie Linie Kolejowe S.A.) for PLN 11,506,921.00 (out of which PLN 2,926,209.77 plus statutory interest was payable to ZUE) after additional works had been carried out and expenses had been incurred during the extended completion time. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation

of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POIiŚ 7.1-18: “Modernisation of the railway line no. 8, construction of the Okęcie Airport siding.”

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

On 30 December 2016, the consortium of:

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

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

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

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

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

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 Żąbkowice - 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 Żąbkowice - Jaworzno Szczakowa section.”

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

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

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

37. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	As at 31-03-2017	As at 31-12-2016
Bonds	27,975	28,080
Bills of exchange	5,801	4,120
Guarantees	55	58
Mortgages	0	0
Total	33,831	32,258

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

Contingent liabilities

	(PLN '000)	
	As at 31-03-2017	As at 31-12-2016
Bonds	283,335	203,078
Guarantees	24,123	15,709
Bills of exchange	143,643	128,319
Mortgages	203,748	201,018
Pledges	4,000	4,000
Total	658,849	552,124

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 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.

As at 31 March 2017, the registered pledge of PLN 4m is a security for the Agreement no. 07/067/15/Z/OB of 28 August 2015 between Railway gft Polska and mBank S.A.

The liabilities to banks and strategic clients are secured by bills of exchange. Mortgages are additional security for agreements with banks. Following the conclusion on 10 April 2017 of an annex to the financing agreement of 10 December 2015 between ZUE and BGŻ BNP Paribas S.A. whereby the security in the form of mortgage was replaced with a deposit, an application was submitted to the District Court of Zakopane on 21 April 2017 to remove the capped mortgage of PLN 150m.

Approval of abbreviated consolidated financial statements

These abbreviated consolidated financial statements for the three months ended 31 March 2017 were approved for publication by the Management Board of ZUE on 26 April 2017.

Wiesław Nowak – Management Board President

Anna Mroczek – Management Board Vice-President

Jerzy Czeremuga – Management Board Vice-President

Maciej Nowak – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-President

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

Cracow, 26 April 2017



ZUE S.A.

**ABBREVIATED SEPARATE FINANCIAL STATEMENTS
FOR 3 MONTHS ENDED 31 MARCH 2017**

Cracow, 26 April 2017

III. SELECTED FINANCIAL DATA OF ZUE S.A.

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

	As at 31-03-2017		As at 31-12-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	147,789	35,023	143,469	32,430
Current assets	158,636	37,593	200,863	45,403
Total assets	306,425	72,616	344,332	77,833
Equity	202,600	48,012	209,623	47,383
Non-current liabilities	23,353	5,534	24,518	5,542
Current liabilities	80,472	19,070	110,191	24,908
Total equity and liabilities	306,425	72,616	344,332	77,833

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

	Period ended 31-03-2017		Period ended 31-03-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	30,383	7,084	27,735	6,367
Cost of sales	33,746	7,868	28,787	6,609
Gross profit (loss) on sales	-3,363	-784	-1,052	-242
Profit (loss) on operating activities	-8,298	-1,935	-3,629	-833
Gross profit (loss)	-8,550	-1,993	-3,428	-787
Net profit (loss) from continuing operations	-7,023	-1,637	-2,756	-633
Total comprehensive income	-7,023	-1,637	-2,756	-633

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

	Period ended 31-03-2017		Period ended 31-03-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-29,430	-6,862	-26,761	-6,144
Cash flows from investing activities	11,199	2,611	-400	-92
Cash flows from financing activities	-2,572	-600	-1,617	-371
Total net cash flows	-20,803	-4,851	-28,778	-6,607
Cash at the beginning of the period	61,207	13,835	169,795	39,844
Cash at the end of the period	39,599	9,384	141,033	33,041

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate	Exchange rate	Exchange rate
		on 31-03-2017	on 31-12-2016	on 31-03-2016
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2198	4.4240	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	4.2891	4.3757	4.3559
"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	4.2198	4.4240	4.2684

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

Separate statement of comprehensive income

(PLN '000)

Continuing operations	Period ended	Period ended
	31-03-2017	31-03-2016
Revenue	30,383	27,735
Cost of sales	33,746	28,787
Gross profit (loss)	-3,363	-1,052
General and administrative expenses	4,333	4,192
Other operating income	699	2,017
Other operating expenses	1,301	402
Operating profit (loss)	-8,298	-3,629
Financial income	630	569
Financial expenses	882	368
Pre-tax profit (loss)	-8,550	-3,428
Corporate income tax	-1,527	-672
Net profit (loss) from continuing operations	-7,023	-2,756
Net profit (loss)	-7,023	-2,756
Other net comprehensive income		
Items that will not be reclassified subsequently to profit or loss:	0	0
Remeasurement of liabilities under employee benefits	0	0
Other total net comprehensive income	0	0
Total comprehensive income	-7,023	-2,756
Weighted average number of shares	23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)	-0.30	-0.12
Total comprehensive income (loss) per share (PLN)	-0.30	-0.12

Separate statement of financial position

	(PLN '000)	
	As at 31-03-2017	As at 31-12-2016
ASSETS		
Non-current assets		
Property, plant and equipment	84,643	80,335
Investment property	7,232	7,349
Intangible assets	8,973	9,119
Goodwill	31,172	31,172
Investments in subordinates	210	210
Advance payments for investments in subordinates	0	0
Long-term receivables	0	0
Retentions on construction contracts	5,490	6,819
Deferred tax assets	10,069	8,465
Other assets	0	0
Total non-current assets	147,789	143,469
Current assets		
Inventories	21,432	6,196
Trade and other receivables	52,934	74,937
Retentions on construction contracts	100	2,101
Current tax assets	0	0
Other financial assets	43,523	54,935
Other assets	770	1,198
Loans advanced	278	289
Cash and cash equivalents	39,599	61,207
Total current assets	158,636	200,863
Total assets	306,425	344,332

	As at 31-03-2017	As at 31-12-2016
EQUITY AND LIABILITIES		
Equity		
Share capital	5,758	5,758
Share premium account	93,837	93,837
Treasury shares	-2,690	-2,690
Retained earnings	105,695	112,718
Total equity	202,600	209,623
Non-current liabilities		
Long-term loans and bank credits and other financing sources	7,863	8,875
Retentions on construction contracts	6,082	6,717
Other financial liabilities	0	0
Liabilities under employee benefits	740	740
Deferred tax liabilities	0	0
Long-term provisions	8,108	7,556
Deferred revenue	0	0
Other liabilities	560	630
Total non-current liabilities	23,353	24,518
Current liabilities		
Trade and other payables	52,919	74,740
Retentions on construction contracts	6,819	9,117
Short-term loans and bank credits and other financing sources	4,326	5,765
Other financial liabilities	36	37
Liabilities under employee benefits	13,265	16,562
Current tax liabilities	0	0
Short-term provisions	3,107	3,970
Total current liabilities	80,472	110,191
Total liabilities	103,825	134,709
Total equity and liabilities	306,425	344,332

Separate statement of changes in equity

(PLN '000)

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
As at	1 Jan 2017	5,758	93,837	-2,690	112,718	209,623
Dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Buy-back of shares		0	0	0	0	0
Profit (loss) for the year		0	0	0	-7,023	-7,023
Other net comprehensive income		0	0	0	0	0
As at	31 Mar 2017	5,758	93,837	-2,690	105,695	202,600

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

Separate statement of cash flows

	(PLN '000)	
	Period ended 31-03-2017	Period ended 31-03-2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-8,550	-3,428
Adjustments for:		
Depreciation and amortisation	2,340	2,219
Foreign exchange gains / (losses)	805	-16
Interest and share in profit (dividends)	48	-429
(Gain) / loss on disposal of investments	-108	10
Accrued expenses under commission on credits	0	0
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit (loss) before changes in working capital	-5,465	-1,644
Change in receivables and retentions on construction contracts	25,426	31,937
Change in inventories	-15,235	139
Change in provisions and liabilities under employee benefits	-3,606	-8,321
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	-30,960	-49,077
Change in accrued expenses	428	246
Change in funds of limited availability	0	0
Other adjustments	0	0
Income tax paid / tax refund	-18	-41
NET CASH FROM OPERATING ACTIVITIES	-29,430	-26,761
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	267	77
Purchase of property, plant and equipment and intangible assets	-554	-1,075
Investments in real property and intangible assets	0	0
Sale / (purchase) of financial assets in other entities	0	0
Sale / (purchase) of financial assets in subsidiaries	0	0
Purchase of financial assets available for sale	0	0
Cash payments to purchase debt instruments of other entities	-126,889	0
Funds from repurchase of debt instruments of other entities	138,083	0
Loans advanced	-4	0
Repayment of granted loans	4	74
Dividends received	0	0
Interest received	75	524
Gain/loss on repurchase of debt instruments	217	0
Settlement of financial instruments – expenses	0	0
Other cash provided by/(used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	11,199	-400
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	0	0
Repayment of loans and bank credits	0	0
Decrease in finance lease liabilities	-2,452	-1,522
Interest paid	-119	-95
Other cash provided by / (used in) financing activities – dividends	-1	0

Net cash from issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	-2,572	-1,617
TOTAL NET CASH FLOWS	-20,803	-28,778
Net foreign exchange gains / (losses)	-805	16
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	61,207	169,795
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	39,599	141,033

Notes to Abbreviated Separate Financial Statements of ZUE

1. General

Information about the Company

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

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

Management Board:

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

Supervisory Board:

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

On 3 February 2017, the Company's Supervisory Board changed the composition of the Company's Management Board. Two members of the Management Board; i.e. Ms. Anna Mroczek and Mr. Maciej Nowak were dismissed and were subsequently appointed the Vice-Presidents of the Management Board for a common three-year term. (Current report 6/2017)

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 31 March 2017 as endorsed by the European Union (EU).

The separate financial statements for the three months ended 31 March 2017 have been prepared according to the requirements binding on public companies.

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

When approving these financial statements, there were no amendments to the existing standards published by the IASB and approved of by the EU which would come into force for the first time in the separate financial statements for 2017.

Standards and interpretations published and approved of by the EU but not yet effective

When approving these financial statements, the following new standards and amendments to the standards were published by the International Accounting Standards Board and approved of by the EU but did not come into force:

- **IFRS 9 “Financial Instruments”** - approved of in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective Date of IFRS 15” - approved of in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

Standards and interpretations adopted 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) save for the following new standards and amendments to the standards not yet approved for use in the EU at this report preparation date:

- **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 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 IFRS 15 “Revenue from Contracts with Customers”** – Clarifications to IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018);
- **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);
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards “Improvements to IFRSs (2014-2016 Cycle)”** – made as part of annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) aimed mainly at the resolution of inconsistencies and specification of vocabulary (amendments to IFRS 12 effective for annual periods beginning on or after 1 January 2017 and amendments to IFRS MSSF 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018);
- **International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

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 Company, hedge accounting for the portfolio of financial assets or financial liabilities according to IAS 39 *Financial Instruments: Recognition and Measurement* would not have any significant impact on the financial statements if used by the 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 three months ended 31 March 2017 have been prepared according to the same accounting principles and measurement methods as those used for the last annual financial statements of the Company as at 31 December 2016. The financial statements for the financial year ended 31 December 2016 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 to make judgments, estimates and assumptions that affect the adopted policies and reported assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods if the revision affects both current and future periods.

Change in provisions

(PLN '000)

Provisions	2017-01-01	Created	Used	Released	Reclassified	31-03-2017	Item
Long-term provisions:	8,296	29	42	0	-565	8,848	
Provisions for employee benefits	740	0	0	0	0	740	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,556	29	42	0	-565	8,108	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	15,656	2,423	5,661	354	565	11,499	
Provisions for employee benefits	11,686	2,421	5,652	63	0	8,392	Liabilities under employee benefits (short-term)
Provisions for warranty claims	3,221	2	9	0	565	2,649	Short-term provisions
Provision for loss on contracts	749	0	0	291	0	458	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	23,952	2,452	5,703	354	0	20,347	

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. 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 as well as liabilities under salaries and wages and social security premiums. A decrease in provisions for employee benefits in the reporting period is mainly a result of the payment of contract bonuses for previous years.

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

Deferred tax assets and liabilities

	(PLN '000)			
	2017-01-01	Created	Used	31-03-2017
Deferred tax assets	21,512	1,691	0	23,203
Deferred tax liability	13,047	87	0	13,134
Balance of assets and liabilities	8,465			10,069

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

5. Trade and other receivables

(PLN '000)

	As at 31-03-2017	As at 31-12-2016
Trade receivables	39,585	65,107
Write-downs of trade receivables	-15,984	-14,699
Receivables from the state budget other than corporate income tax	6,170	4,251
Receivables under contracts (measurement)	19,659	17,460
Advance payments	3,180	2,563
Other receivables	324	255
Total trade and other receivables	52,934	74,937

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

(PLN '000)

	As at 31-03-2017
Counterparty A	7,987
Counterparty B	7,003
Counterparty C	6,330
Total	21,320

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 31-03-2017	As at 31-12-2016
Trade payables	34,411	53,329
Liabilities to the state budget other than corporate income tax	926	837
Accruals	16,299	19,060
Liabilities under contracts (measurement)	1,180	1,413
Other payables	103	101
Total trade and other payables	52,919	74,740

Accruals include, in particular, provisions for the expenses associated with subcontractors and provisions for contract settlement risks.

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 three months ended 31 March 2017 or the three months ended 31 March 2016.

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 15 March 2017, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2016 of PLN 1.5m to reserve funds. The Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations.

11. Investments in non-current assets

The total capital expenditure incurred by the Company in the first quarter of 2017 amounted to PLN 6,732 thousand.

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

(PLN '000)

Investments in non-current assets				
Item:	Own funds	Lease	Credits	Total
Intangible assets, including:	8	0	0	8
- Leasehold land	0	0	0	0
Property, plant and equipment, including:	6,638	0	0	6,638
- buildings and structures	0	0	0	0
- plant and equipment	44	0	0	44
- vehicles	6,572	0	0	6,572
- other	22	0	0	22
Non-current assets under construction	86	0	0	86
Investment property	0	0	0	0
Equity investments	0	0	0	0
Total investments	6,732	0	0	6,732

The major investments in property, plant and equipment made by the Company in the first quarter of 2017 included:

- Purchase of four TMS-40.01 wagons (for ballast cleaning) worth PLN 5,840 thousand.
- Complete overhauls of machines and vehicles in the total amount of PLN 281 thousand.
- Purchase of a car for PLN 477 thousand.
- Expenditures on Railroad Crane – PLN 30 thousand.

The Company's investments in intangible assets in Q1 2017 concerned the purchase of licence and software.

The amount recognized in the statement of cash flows is PLN 554 thousand. The difference results, *inter alia*, from payments made after the end of the reporting period.

At the date of preparation of this report, the Company invested in the following property, plant and equipment:

- Krupp 75t Railroad Crane. Expected transaction closing date: May 2017. The purchase is financed by own resources.
- Six TMS-40.01 wagons and one additional conveyor for coupling the TMS-40.01 wagon with the ballast cleaning machine RM80 UHR. The contract is continued successively until May 2017 (the total number of wagons according to the contract was ten; four wagons were purchased during the reporting period).
- Pile Driver PV 15 RPR. Expected transaction closing date: September 2017.

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	
	31-03-2017	31-12-2016	31-03-2017	31-12-2016
Railway GFT	1,154	69	8,438	21,816
BPK Poznań	13	13	857	1,149
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	468	0
Total	1,167	82	9,763	22,965

	Revenue		Purchases	
	Period ended		Period ended	
	31-03-2017	31-03-2016	31-03-2017	31-03-2016
Railway GFT	48	119	10,437	770
BPK Poznań	131	224	108	242
RTI	1	1	0	0
RTI Germany	0	0	0	113
Wiesław Nowak	0	0	468	0
Total	180	344	11,013	1,125

	Advanced loans		Financial income (interest)	
	As at		As at	
	31-03-2017	31-12-2016	31-03-2017	31-03-2016
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	0
RTI	0	0	0	0

RTI Germany	58	58	0	0
Wiesław Nowak	0	0	0	0
Total	58	58	0	0

	Received loans		Financial expenses (interest)	
	As at		As at	
	31-03-2017	31-12-2016	31-03-2017	31-03-2016
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	0
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

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

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

- Design services;
- Lease of rooms, including utilities and phone services; and
- Financial services.

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

- Purchase of materials used in connection with the construction and repair of tracks;
- Design services;
- Printing services;
- Training services;
- Equipment services;
- Transport services; and
- Rail welding.

In the first quarter of 2017, RTI leased business establishments from ZUE on the basis of the lease of 31 December 2015.

In the first quarter of 2017, BPK Poznań leased rooms from ZUE on the basis of the lease of 1 October 2015 and the lease of 7 April 2010 amended on the basis of subsequent annexes.

On 2 January 2017, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 1 thousand to be repaid by 31 March 2017. The loan was advanced on 5 January 2017. The loan plus interest was repaid on 27 March 2017.

On 30 March 2017, ZUE and Mr. Wiesław Nowak entered into an agreement whereby a car was purchased by ZUE. Transaction value: PLN 468 thousand. The payment was made on 3 April 2017.

At the end of the first quarter of 2017, the value of guarantees provided to secure transactions entered into by subsidiaries is PLN 24.1m and the value of guarantees provided to secure sales transactions entered into by subsidiaries is PLN 10m.

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 49,520 thousand; i.e. more than 10% of the Company's

equity. The total value of the proceedings concerning liabilities is PLN 781 thousand and the total value of the proceedings concerning claims is PLN 48,739 thousand.

The pending court proceedings are related to Company's operating activities. Section 36 of the consolidated financial statements contains a detailed description of the court proceedings.

15. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	As at 31-03-2017	As at 31-12-2016
Bonds	27,425	27,489
Bills of exchange	6,033	4,364
Guarantees	0	0
Mortgages	0	0
Total	33,458	31,853

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

	(PLN '000)	
	As at 31-03-2017	As at 31-12-2016
Bonds	274,546	195,670
Guarantees	24,123	15,709
Bills of exchange	125,613	110,290
Mortgages	203,748	201,017
Pledges	0	0
Total	628,030	522,686

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 supply 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 liabilities to banks and strategic clients are secured by bills of exchange. Mortgages are additional security for agreements with banks. Following the conclusion on 10 April 2017 of an annex to the financing agreement of 10 December 2015 between ZUE and BGŻ BNP Paribas S.A. whereby the security in the form of mortgage was replaced with a deposit, an application was submitted to the District Court of Zakopane on 21 April 2017 to remove the capped mortgage of PLN 150m.

Approval of abbreviated separate financial statements

These abbreviated separate financial statements for the three months ended 31 March 2017 were approved for publication by the Management Board of ZUE on 26 April 2017.

Wiesław Nowak – Management Board President

Anna Mroczek – Management Board Vice-President

Jerzy Czeremuga – Management Board Vice-President

Maciej Nowak – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-President

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

Cracow, 26 April 2017