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**ZUE CAPITAL GROUP**

**MANAGEMENT BOARD REPORT**

**For the Period 1 January 2015 - 30 June 2015**

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Cracow, 24 August 2015

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.
BIUP	<p>Parent company of the ZUE Capital Group.</p> <p>Biuro Inżynierskich Usług Projektowych 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 0000332405, share capital of PLN 2,017,850 paid up in full.</p> <p>Subsidiary of ZUE.</p> <p>On 29 May 2015, BIUP acquired BPK Poznań and changed its name to BPK Poznań. For the purposes of this report, the company has been described under the name BPK Poznań (after the merger).</p>
RTI	<p>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 50,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI Germany	<p>Railway Technology International Germany GmbH with registered office in Hamburg, Germany. Share capital of EUR 25,000 paid up in full.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
BPK Poznań	<p>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 0000160302, share capital of PLN 2,170,000 paid up in full.</p> <p>Former subsidiary of BIUP.</p> <p>On 29 May 2015, BIUP acquired BPK Poznań.</p>
BPK Gdańsk	<p>Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. w likwidacji with registered office in Gdańsk, entered into the National Court Register maintained by the District Court Gdańsk-Północ, VII Commercial Division of the National Court Register, under entry no. KRS 0000273363, share capital of PLN 1,000,000 paid up in full.</p> <p>Former associate of ZUE. Deleted from the National Court Register on 30 May 2015.</p>
Raliway gft	Raliway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full.
BPK Poznań (after merger)	<p>Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań (former BIUP), 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 0000332405, share capital of PLN 2,017,850 paid up in full.</p> <p>Subsidiary of ZUE.</p>
ZUE Group, Group, Capital Group	ZUE Capital Group including ZUE, BPK Poznań (after merger), Raliway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Journal of Laws 2000, no. 94, item 1037, as amended).

Share capital details as at 30 June 2015.

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## INTRODUCTION

This Report on Activities of the ZUE Capital Group (ZUE Group) for the period 1 January 2015 – 30 June 2015 contains information whose scope has been defined under § 90.1.3 in connection with § 87.7.2-11 of the Ordinance by the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent.

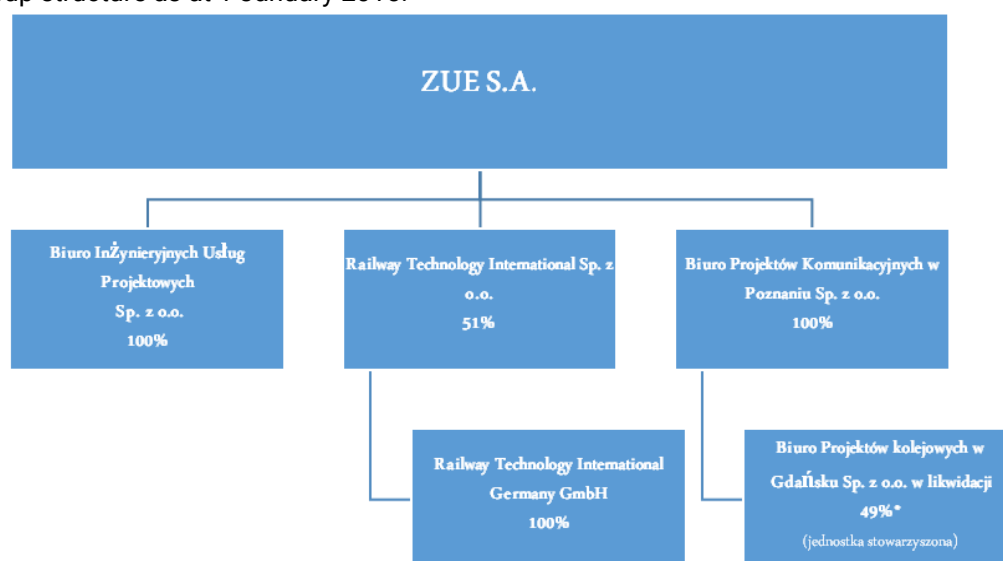
The condensed financial statements of the Group and ZUE S.A. (ZUE, Parent Company, Issuer), elements of the extended consolidated 1H 2015 report, have been prepared in accordance with IAS/IFRS including, in particular, IAS 34 "Interim Financial Reporting."

## 1. OPERATIONAL INFORMATION

### 1.1. Organisation of the Group

#### 1.1.1. Structure of the Group

Group structure as at 1 January 2015.



\* "Jednostka stowarzyszona" - associate

\*Direct interest of BPK Poznań in the share capital of BPK Gdańsk.

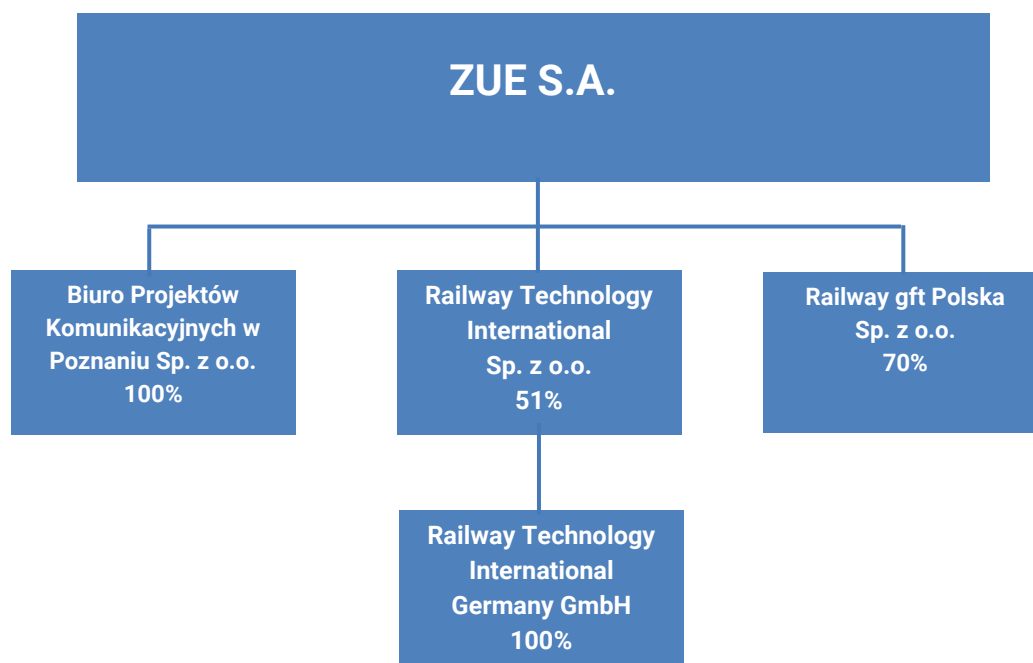
On 16 February 2015, a letter of intent was signed by the shareholders of RAILWAY gft Polska sp. z o.o. of Cracow (RAILWAY) and the Company whereby the parties summed up their negotiations and defined their intentions concerning the terms of business negotiations aimed at the Company's acquisition of a majority stake in RAILWAY. On 23 March 2015, the Company and Ms. Katarzyna Reszczyńska, a majority shareholder of Railway gft, entered into the sales agreement whereby the Company conditionally acquired 35 shares; i.e. 70% of the share capital of RAILWAY. On 15 April 2015, the Company learnt of the approval by the President of the Office of Competition and Consumer Protection of the concentration; i.e. gaining control by the Company of RAILWAY through the acquisition of shares in RAILWAY. Consequently, the abovementioned condition was met.

The condition was met and the Company gained control of RAILWAY.

On 29 April 2015, the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, decided to remove Biuro Projektów Kolejowych w Gdańsku Spółka z o.o. w likwidacji from the National Court Register. The decision became final on 30 May 2015.

On 29 May 2015, the District Court for Cracow – Śródmieście in Cracow, XI Commercial Division of the National Court Register, issued the decision about the merger of BPK Poznań and BIUP.

Group structure as at 30 June 2015 and the date of this report approval.



**Subsidiary – Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. (after merger)** has been established under the notarial deed of 15 June 2009 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 entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division, under entry no. KRS 0000332405.

**Subsidiary – Railway Technology International Sp. z o.o.** has been established under the notarial 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 notarial 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.

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

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.

## 1.1.2. Consolidated companies

Consolidated companies as at 30 June 2015:

Name	Registered office	Interests as at			Consolidation method
		30 Jun 2015	31 Dec 2014	30 Jun 2014	
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. (after merger)	Poznań	100%	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	70%	n/a	n/a	Full

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

ZUE holds a 51% interest in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated as at 30 June 2015.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Germany GmbH was not consolidated as at 30 June 2015.

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

#### **BPK Gdańsk**

Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. w likwidacji was established on the basis of the notarial deed of 24 July 2006 in the Notary's Office in Gdańsk, ul. Grunwaldzka 71/73 apt. 10 (Rep. A no. 18114/2006). Gdańsk was the company's registered office. The Company was registered with the District Court Gdańsk-Północ, VII Commercial Division, under entry no. KRS 0000273363 (former associate through BPK Poznań).

On 29 April 2015, the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, decided to remove Biuro Projektów Kolejowych w Gdańsku Spółka z o.o. w likwidacji from the National Court Register. The decision became final on 30 May 2015. The aim of the operation of BPK Gdańsk was to liquidate the assets to satisfy the liabilities that exceed the value thereof.

#### **Merger of BIUP and BPK Poznań**

On 30 December 2014, the Extraordinary Shareholders Meeting of BIUP resolved to increase the share capital of BIUP from PLN 1,269,400.00 to PLN 2,017,850.00 through the creation of 14,969 new shares with a par value of PLN 50 each. All the shares of the total value of PLN 748,450.00 were acquired in full by ZUE and paid up with contributions of the total value of PLN 2,993,800 including in-kind contribution in the form of 4,261 shares with a par value of PLN 500 each held by the Company (as the sole shareholder) in the share capital of BPK Poznań (their carrying amount according to the Company's accounting records was PLN 2,993,735.88) and cash of PLN 64.12.

On 30 January 2015, the increase of the share capital of BIUP was registered with the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register.

On 12 May 2015, the Extraordinary Shareholders Meeting of Biuro Inżynierskich Usług Projektowych Sp. z o. o. and the Extraordinary Shareholders Meeting of Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. resolved to merge BIUP and BPK Poznań, design companies, and make relevant amendments to the Articles of Association of BIUP.

On 29 May 2015, the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, issued the decision about the merger of BPK Poznań and BIUP.

Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. emerged as a result of the merger of BIUP and BPK Poznań. For the purposes of this report, the company was described under the name BPK Poznań (after the merger).

#### **Railway gft**

On 16 February 2015, ZUE signed a letter of intent concerning the acquisition of 70% of shares in Railway gft.

On 23 March 2015, the Company and Ms. Katarzyna Reszczyńska (the "Seller"), a majority shareholder of Railway gft, entered into the sales agreement. The Company acquired 35 shares; i.e. 70% of the share capital of Railway gft for PLN 3,500.00. The transaction was under the condition precedent that



the consent was given by the President of the Office of Competition and Consumer Protection (the "OCCP") or there were circumstances in which the consent was not required; i.e.:

- a) The Company received an unconditional consent of the President of the OCCP to the concentration; or
- b) The Company received a decision of the President of the OCCP to discontinue the concentration proceedings as there was no notice requirement; or
- c) The notice was returned because the President of the OCCP decided it was not required; or
- d) The deadline for the decision of the President of the OCCP expired as a result of which it was assumed, under the Polish Competition and Consumer Protection Act, that the unconditional consent to the concentration had been given by the President of the OCCP.

On 15 April 2015, the Company learnt of the approval by the President of the OCCP of the concentration; i.e. gaining control by the Company of Railway gft through the acquisition of shares in Railway gft. The decision fully complied with the Company's request and could be performed on 15 April 2015.

Consequently, ZUE gained control of Railway gft on 15 April 2015 and Railway gft became a subsidiary.

On 30 April 2015, the Extraordinary Shareholders Meeting of Railway gft resolved to increase the share capital of Railway gft from PLN 5,000.00 to PLN 300,000.00 through the creation of 2,950 new shares with a par value of PLN 100 each. All the new shares of the total value of PLN 295,000.00 were acquired by the existing Shareholders (including ZUE) proportionally to the shares already held by them and paid up with contributions of the total value of PLN 295,000.00.

On 3 June 2015, the District Court for Cracow – Śródmieście in Cracow, XI Commercial Division of the National Court Register, entered ZUE as the holder of 70% of shares in Railway gft.

## 1.2. Activities of the Group

The Group identifies the three aggregate operating segments:

- Construction;
- Design; and
- Sales.

The construction activities are conducted by ZUE. Design activities related to urban and railway transport systems supplement the construction activities. This segment includes the contracts performed by BPK Poznań.

Sales activities are conducted by Railway gft Polska Sp. z o.o. – a new member of the Group.

The construction and assembly, and design activities include:

- City infrastructure construction:
  - Design, construction and upgrade of OCL networks.
  - Design, construction and upgrade of OCL substations.
  - Design, construction and maintenance of street lighting.
  - Design, construction and upgrade of cable lines and fault location.
  - Design, construction and upgrade of traffic signalling.
- Rail infrastructure construction:
  - Design, construction and repairs of railway electric traction.
  - Construction, upgrade and repairs of railway tracks.
  - Earthworks and railway substructure.
  - Drainage systems.
  - Civil structures.
  - Buildings (station buildings, depots and switch towers).
  - Low-voltage electric installations.
  - Thermite welding of rails.
  - Rail surfacing.
- Power infrastructure construction:
  - Design and construction of high voltage cable and overhead lines.
  - Design and construction of fixed and overhead transformer stations.
  - Design and construction of MV power cable lines.
  - Design and construction of LV cable lines.
  - Construction of road traffic signalling from design to implementation and commissioning of the entire system.
  - Design, installation and maintenance of street lighting.
  - Telecommunications technology.

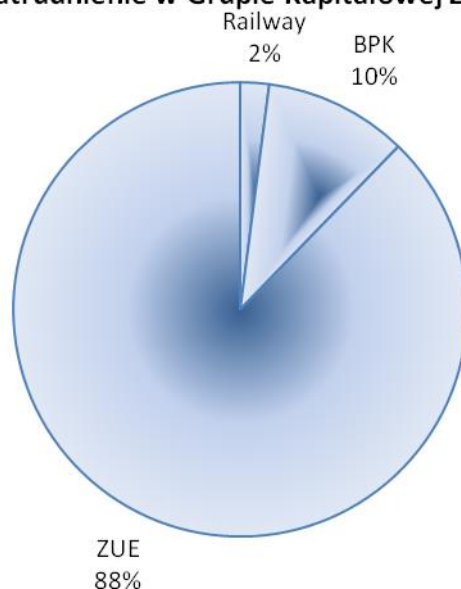
As part of its sales activities, the Group offers:

- Rails for railways, tramways, bridges, special profiles and light rails.
- Steel, wooden and prestressed concrete sleepers.
- Railway switchgear and switchgear components.
- Tram and railway tracks construction accessories.
- Aggregate.
- Special technologies: RHEDA 2000® ballastless track system, RHEDA CITY C tramway systems, RHEDA CITY GREEN, "Ypsilon" steel sleepers.
- Welding materials: accessories, moulds and mounting system.

### 1.3. Employment in the Group

As at 30.06.2015, the Capital Group employed 832 people.

**Zatrudnienie w Grupie Kapitałowej ZUE**



„Zatrudnienie w Grupie Kapitałowej ZUE” - Employment in the Group.

## 2. GROUP'S ACTIVITIES IN THE REPORTING PERIOD

The Capital Group continued its business activities in the reporting period. The Group's operations on the Polish market included, in particular, the performance of infrastructure contracts for the city administrators and the following companies: PKP Polskie Linie Kolejowe S.A. and Polskie Sieci Elektroenergetyczne Spółka Akcyjna. In addition, the Group expanded its operations on foreign markets and continued the performance of contract in Slovakia. To expand its operations abroad, the Group continued its activities in Slovakia and conducted marketing activities on new markets. Sales activities undertaken by Railway gft were aimed at limiting the risk of untimely deliveries of important materials when there was a greater need for them and making prices more competitive. The Group's portfolio of contracts for this and the forthcoming years is worth more than PLN 950m and the Group is actively searching for new contracts.

The performance of the following contracts had the biggest influence on revenue generated in 1H 2015:

- Design and construction works in connection with the reconstruction of the *Pogodno* tram depot in Szczecin. Upgrade of the tramway track along the Gliwicka Street from the *Lisa* tram stop to the borders of Katowice and Chorzów. Reconstruction of OCL network (project no. 11a), Upgrade of the tramway track in the tram crossing in the Bracka Street in Katowice.
- Extension of a tramway under the KST project Phase II B including the road system (the Lipska Street – the Wielicka Street) in Cracow.
- Completion of Košice integrated track transport system, construction IKD - 1. Stage/Slovakia.
- Modernisation of the Biadolino – Tarnów section of E30 railway line Cracow – Medyka.
- Design and construction services for the following project: "Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie – Dąbrowa Górnicza Zabkowice – Jaworzno Szczakowo section."
- Construction works on the section named V Grodzisk Mazowiecki station / track, drainage and platform works/.
- Upgrade of the railway line no. 137 on the Katowice – Chorzów Batory section as part of the following project: "Upgrade of the railway lines no. 134, 137 and 138 on the Gliwice Łabędy - Katowice - Sosnowiec Jęzor section."

### 2.1. Construction contracts

Below please find major construction contracts entered into in 1H 2015:

On 23 March 2015, PKP PLK S.A. (the "Contracting Authority") signed the Annex no. 2 to the contract of 25 March 2013 for design and construction services for the following project: "Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the **Zawiercie – Dąbrowa Górnicza Zabkowice – Jaworzno Szczakowo** section." Under the Annex no. 2, the completion date was extended from 728 days from the commencement date to 12 July 2015. In addition, the Company waived its claims in connection with a delay in the site delivery (22 days) or failure to provide an access to one of the plots (74 days). The total delay through the fault of the Contracting Authority coincided with a new deadline contained in the Annex no. 2.

On 27 March 2015, ZUE and PKP PLK S.A. entered into the contract for **Upgrade of the railway line no. 137 on the Katowice – Chorzów Batory** section as part of the following project: "Upgrade of the railway lines no. 134, 137 and 138 on the Gliwice Łabędy - Katowice - Sosnowiec Jęzor section."

The contract provided for the completion of:

- Design and as-built documentation.
- Surface, substructure and construction works;
- Power industry works; and
- Automatics and telecommunications works.

Contract net value: PLN 42,499.7 thousand. Completion date: November 2015.

## 2.2. Financial agreements

On 13 May 2015, the Company and BGŻ BNP Paribas S.A. signed the Annex no. 1 to the Revolving Credit Facility Agreement. Under the said Annex, the credit term was extended until 4 January 2016, the security was extended to include registered pledge on the Company's machines and the assignment of rights under insurance policy and the credit disbursement schedule was defined.

On 13 May 2015, the Company and mBank S.A. signed the Annex no. 13 to the Overdraft Agreement no. 07/183/04/Z/VV. Under the Annex, the term of the credit was extended until 13 May 2016.

On 29 May 2015, ZUE and PZU S.A. signed the Annex no. 10 to the bond and guarantee agreement no. UO/GKR/11/2010/051-18-01-00 of 29 April 2010. The Annex dealt mainly with the increase of maximum limit by PLN 12.9m.

On 15 June 2015, the Issuer and mBank S.A. signed the annex to the cooperation agreement for the Company's use of the Bank's products and services to finance the Company's day-to-day operations of 30 June 2015. Under the annex, the limit for non-revolving working capital facilities was raised to PLN 90m and the security clauses were amended.

## 2.3. Other events

On 27 January 2015, the Management Board of ZUE entered into the contract with ThyssenKrupp GfT Polska Sp. z o.o. of Cracow (the "Seller"). Under the contract, the Company bought from the Seller the track structure materials such as tram and railway rails, track accessories, sleepers etc. for PLN 19.5m plus VAT. The said amount was paid in the following manner:

- I instalment of PLN 9,767,425.49 plus VAT – by 31 March 2015;
- II instalment of PLN 9,767,425.49 plus VAT – by 30 April 2015.

The contract was concluded under the condition precedent that the Company provided the Seller by 4 February 2015 with two irrevocable bank guarantees (the "Guarantees") up to PLN 9,900,000.00 each payable on first demand. In addition, the Company was obliged under the conditions precedent to buy the sleepers of the total value of PLN 265,149.02 by 31 December 2015 and other track structure materials of the total value of approx. PLN 40.4m, whose purchase would be paid for in instalments, by 31 January 2016.

On 3 February 2015, the agreement was concluded by and between the Management Board of ZUE and mBank S.A. The agreement provided for the issue by the Bank, at the Company's request, of the two irrevocable bank guarantees up to PLN 9,900,000.00 each payable on first demand to ThyssenKrupp GfT Polska Sp. z o.o. with registered office in Cracow (the "Seller"). Thus, the condition precedent was met.

The amount of the fees the Company was obliged to pay in connection with the Guarantees issued by the Bank had been determined on arm's length. The Guarantees expired after the payment had been made in line with the agreement.

On 16 February 2015, ZUE signed a letter of intent concerning the acquisition of 70% of shares in Railway gft Polska Sp. z o.o. of Cracow. Railway gft conducted its activities in the same scope as ThyssenKrupp GfT Polska Sp. z o.o. and continued to supply rails, sleepers, accessories, aggregate, etc. The transaction was under the condition precedent that the consent was given by the President of the Office of Competition and Consumer Protection (the "OCCP") or there were circumstances in which the consent was not required.

On 23 March 2015, the Company and Ms. Katarzyna Reszczyńska (the "Seller"), a majority shareholder of Railway gft, entered into the sales agreement. The Company acquired 35 shares; i.e. 70% of the share capital of Railway gft for PLN 3,500.00. The transaction was under the condition precedent that the consent was given to the Company by the President of the OCCP or there were circumstances in which the consent was not required; i.e.:

- a) The Company received an unconditional consent of the President of the OCCP to the concentration; or
- b) The Company received a decision of the President of the OCCP to discontinue the concentration proceedings as there was no notice requirement; or
- c) The notice was returned because the President of the OCCP decided it was not required; or
- d) The deadline for the decision of the President of the OCCP expired as a result of which it was assumed, under the Polish Competition and Consumer Protection Act, that the unconditional consent to the concentration had been given by the President of the OCCP.

On 11 May 2015, the Management Board of ZUE resolved to submit a proposal to the Company's Ordinary General Meeting in which they recommended to allocate the entire net profit for the financial year 2014 to reserve funds.

On 18 June 2015, the Ordinary General Meeting of ZUE resolved to allocate the entire net profit of PLN 10,621,692.00 earned by the Company in 2014 to reserve funds.

On 30 June 2015, the Company informed that Mr. Arkadiusz Wierciński had resigned from the position of the Management Board Member as of 31 July 2015.

## **2.4. Transactions with related entities**

The transactions with the related entities in the Group included typical business transactions concluded on arm's length.

Section 20 "Transactions with related entities" of interim consolidated financial statements contains detailed information about transactions with related entities.

## 2.5. Major events after the reporting period

On 7 July 2015, the Company ended the buy-back of own shares. The shares had been bought back since 7 January 2015 on the basis of the Resolution no. 4 passed by the Company's Extraordinary General Meeting on 8 December 2014 authorising the Management Board of ZUE S.A. to buy back the shares. The transaction was closed because the six-month period for reporting by the eligible parties of their demand to buy back the shares had passed. The Company bought back the total of 264,652 ZUE shares.

On 17 July 2015, the Group and Zarząd Infrastruktury Komunalnej i Transportu w Krakowie entered into the contract for the **maintenance and repair of tram infrastructure in Cracow** in the period 2015 – 2018. The contract provided for the maintenance and repair of all elements of tram infrastructure and emergency repairs. The contract net value was up to PLN 42,258 thousand. The contract would be performed in the period 1 August 2015 - 31 July 2018.

On 30 July 2015, a contract was entered into between PKP Polskie Linie Kolejowe S.A. and the consortium of the Company (Leader) and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. (Partner) (jointly referred to as the "Consortium"). The contract provided for the performance by the Consortium of a set of tasks in connection with "Upgrade of the track no. 2 of the railway line no. 131 on the Tarnowskie Góry – Kalety section, reconstruction of the Baronów station and the reconstruction of 18 crossovers at the Tarnowskie Góry station, as part of the following project: "Upgrade of the Chorzów Batory - Tczew railway line no. 131, the Bydgoszcz Główna - Zduńska Wola - Chorzów Batory section." The contract net value used for the calculation of contractual penalties was PLN 45.9m and the net remuneration attributable to the Company under the said contract was PLN 27.4m. The contract gross value was PLN 56.5m. The completion date was set at 31 December 2015.

On 12 August 2015, ZUE and Tramwaje Warszawskie Sp. z o.o. (the "Contracting Authority") signed the contract for the reconstruction (upgrade) of the tram route on the **Dworzec Wileński – Żerań Wschodni** section. The contract net value was PLN 53.0m. The contract gross value was PLN 65.2m. The completion date was set at 16 April 2016.

### 3. GROUP'S FINANCIAL AND ECONOMIC SITUATION

Consolidated half-yearly 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 financial statements' preparation date.

After 31 December 2015, the Group changed the accounting policy regarding the presentation of deferred tax in the financial statements. Until 31 December 2014, deferred tax was presented by the Group separately as asset and liability. Since 1 January 2015, deferred tax has been presented by the Group according to its netted balance (IAS 12). The consolidated financial statements present the total of the companies' individual balances.

Given the comparability of data requirement, the table below presents the influence of changes on the financial statements as at 31 December 2014.

Item (PLN '000)	Presentation before the change	Presentation after the change
Deferred tax assets	30,854	6,827
Deferred tax liabilities	24,935	908
Balance of assets and liabilities	5,919	5,919
Debt to equity ratio	1.2	1.0
Fixed capital to non-current assets ratio	1.6	1.7
Interest coverage ratio	18.3	0.6



### 3.1. Discussion of balance sheet items

The table below sets out the main items of the consolidated statement of financial position of the Group as at 30 June 2015 compared with the items as at 31 December 2014.

Item (PLN '000)	30.06.2015	31.12.2014	Change	% change
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	72,566	73,148	-582	-0.8%
Investment property	7,740	7,823	-83	-1.1%
Intangible assets	10,708	11,683	-975	-8.3%
Goodwill	31,172	32,646	-1,474	-4.5%
Investments in non-consolidated subsidiaries	29	29	0	0.0%
Advance payments for investments in subsidiaries	0	0	0	None
Long-term receivables	0	0	0	None
Retentions on construction contracts	4,322	3,197	1,125	35.2%
Deferred tax assets	7,622	6,827	795	11.6%
Other assets	0	136	-136	-100.0%
<b>Total non-current assets</b>	<b>134,160</b>	<b>135,488</b>	<b>-1,329</b>	<b>-1.0%</b>
<b>CURRENT ASSETS</b>				
Inventories	47,652	17,921	29,731	165.9%
Trade and other receivables	208,234	180,429	27,805	15.4%
Retentions on construction contracts	516	1,525	-1,009	-66.2%
Current tax assets	80	1,913	-1,833	-95.8%
Other financial receivables	0	0	0	
Other assets	1,315	1,877	-562	-29.9%
Loans advanced	144	135	9	6.7%
Cash and cash equivalents	23,882	71,405	-47,523	-66.6%
<b>Total current assets</b>	<b>281,822</b>	<b>275,206</b>	<b>6,617</b>	<b>2.4%</b>
<b>TOTAL ASSETS</b>	<b>415,982</b>	<b>410,694</b>	<b>5,288</b>	<b>1.3%</b>

Item (PLN '000)	30.06.2015	31.12.2014	Change	% change
<b>EQUITY AND LIABILITIES</b>				
Share capital	5,758	5,758	0	0.0%
Share premium account	93,837	93,837	0	0.0%
Treasury shares	-2,642	0	-2,642	None
Retained earnings	104,999	101,856	3,143	3.1%
<b>Total equity</b>	<b>201,952</b>	<b>201,450</b>	<b>501</b>	<b>0.2%</b>
Equity attributable to non-controlling interests	301	0	301	None
<b>Total equity</b>	<b>202,252</b>	<b>201,450</b>	<b>802</b>	<b>0.4%</b>
<b>NON-CURRENT LIABILITIES</b>				
Long-term bank borrowings and other debt instruments and other financing sources	3,786	5,255	-1,469	-28.0%
Retentions on construction contracts	8,322	8,796	-474	-5.4%
Other financial liabilities	1,050	1,190	-140	-11.8%
Liabilities under employee benefits	2,368	2,485	-117	-4.7%
Deferred tax liabilities	349	908	-559	-61.5%
Long-term provisions	7,829	8,410	-581	-6.9%
Deferred revenue	0	0	0	None
Other liabilities	0	0	0	None
<b>Total non-current liabilities</b>	<b>23,704</b>	<b>27,044</b>	<b>-3,340</b>	<b>-12.4%</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	136,364	132,587	3,777	2.8%
Retentions on construction contracts	14,702	18,180	-3,478	-19.1%
Short-term bank borrowings and other debt instruments and other financing sources	7,254	10,269	-3,015	-29.4%
Other financial liabilities	322	283	39	14.1%
Liabilities under employee benefits	20,341	14,199	6,142	43.3%
Current tax liabilities	2,851	67	2,784	4,155.2%
Short-term provisions	8,191	6,615	1,576	23.8%
<b>Total current liabilities</b>	<b>190,026</b>	<b>182,200</b>	<b>7,826</b>	<b>4.3%</b>
<b>Total liabilities</b>	<b>213,730</b>	<b>209,244</b>	<b>4,486</b>	<b>2.1%</b>
			0	
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>415,982</b>	<b>410,694</b>	<b>5,288</b>	<b>1.3%</b>

At 30 June 2015, total assets increased by 1.3% compared to 31 December 2014 and stood at PLN 415,982 thousand.

Non-current assets decreased slightly and amounted to PLN 134,160 thousand. A change in non-current assets was mainly caused by the write-down of goodwill of PLN 1,474 thousand, the write-down of intangible assets of PLN 767 thousand and the increase in retentions on construction contracts of PLN 1,125 thousand. Goodwill was written down due to the merger of design companies and the restructuring thereof.

Compared to the end of 2014, current assets increased by PLN 6,617 thousand. Current assets changed as a result of decrease in cash and cash equivalents by PLN 47,523 thousand, increase in receivables by PLN 27,805 thousand and increase in inventories by PLN 29,731 thousand. Inventories grew after Railway gft, a trade company, had been included in the Group. Trade receivables increased after the *Franowo* Depot contract had been finally settled and an invoice for 20% of the contract value had been issued. Receivables under contracts (measurement) also increased in connection with the

performance of the following contract: Design and construction services in connection with the reconstruction of the *Pogodno* tram depot in Szczecin. Under the contract, an invoice for 98% of the contract value would be issued upon final acceptance (expected completion date: 30 September 2015). A decrease in cash and cash equivalents was caused by the financing of sales activities and the performance of the abovementioned contract in Szczecin.

Compared to the end of 2014, the Company's equity increased and stood as at 30 June 2015 at PLN 202,252 thousand. Equity increased by PLN 802 thousand as a result of the consolidated profit of PLN 3,318 thousand generated in the first half of 2015 and was reduced as a result of the buy-back of own shares of PLN 2,642 thousand as well as changes in minority interests of PLN 126 thousand.

Total liabilities as at 30 June 2015 increased by PLN 4,486 thousand when compared with the end of 2014 and reached PLN 213,730 thousand. Liabilities increased over the figure reported at the end of 2014 following the creation of provisions for employee benefits and provisions for risks connected with the settlement of the *Franowo Depot* contract.

The Company created a provision for future liabilities in connection with a dispute with a Consortium Member (Elektrobudowa SA) and the Consortium Member's failure to issue an invoice to ZUE. According to the acceptance protocol signed on 10 June 2015, ZUE (the Consortium Leader) issued an invoice to MPK (the Contracting Authority) for all the services provided by the Partners.

On 7 August 2015, the amount payable to ZUE was transferred to the Leader's bank account. The amount payable to the Partner was transferred by the Contracting Authority to the court deposit. The collection by ZUE of the amount kept in the deposit was made conditional by Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu Sp. z o.o. (MPK) upon the submission of the following documents:

- Administrative order against MPK including the amounts receivable in connection with the performance of construction works by ZUE or Elektrobudowa SA; or
- Final and enforceable judgment according to which the termination of the consortium contract by Elektrobudowa SA and revocation of the power of attorney were ineffective.

In addition, according to the letter of MKP, Elektrobudowa SA failed to settle its liabilities to subcontractors as a result of which the amount payable to Elektrobudowa SA could not be paid and had to be transferred to the deposit.

As regards the amount payable to Elektrobudowa SA, ZUE has a financial claim in connection with the company's failure to cover shared costs, general contracting costs and additional costs incurred by ZUE in connection with the company's failure to perform its tasks properly.

Elektrobudowa SA issued the invoices for the construction works performed by the company directly to the Contracting Authority. However, this was in breach of the consortium contract.

According to the public procurement contract and the consortium contract, ZUE was the entity authorised to issue invoices for the Contractor (i.e. the Consortium of ZUE and Elektrobudowa SA). MPK returned the invoices issued by Elektrobudowa SA without posting them. MKP decided the documents had been groundlessly issued in breach of the terms of final settlement set out in the public procurement contract. The Contracting Authority noted it was obliged to pay ZUE directly on the basis of an invoice issued by the Company. The performance of the said obligation in any way other than specified in the contract would be in breach thereof and of the law.

The Company created provisions for any risks connected with the final settlement of the contract and recognised them in the financial statements.

## Debt ratios

Item	30.06.2015	31.12.2014
Debt ratio	0.5	0.5
Debt to equity ratio	1.1	1.0
Equity to assets ratio	0.5	0.5
Fixed capital to non-current assets ratio	1.7	1.7
Short-term debt ratio	0.5	0.4
Long-term debt ratio	0.1	0.1
Interest coverage ratio	19.9	0.6

### **Formulas used to calculate the ratios:**

*Debt ratio = (non-current and current liabilities + provisions for liabilities) / total assets*

*Debt to equity ratio = (non-current and current liabilities) / equity*

*Equity to assets ratio = equity / total assets*

*Fixed capital to non-current assets ratio = (equity + non-current liabilities) / non-current assets*

*Short-term debt ratio = current liabilities / total assets*

*Long-term debt ratio = non-current liabilities / total assets*

*Interest coverage ratio = EBIT / interest*

Debt ratios confirm the Group's ability to settle its liabilities.

## Liquidity ratios

Item	30.06.2015	31.12.2014
Working capital	91,796	93,006
Current ratio	1.5	1.5
Quick ratio	1.2	1.4
Cash ratio	0.1	0.4

### **Formulas used to calculate the ratios:**

*Working capital = current assets – current liabilities*

*Current ratio = current assets / current liabilities*

*Quick ratio = (current assets – inventory) / current liabilities*

*Cash ratio = cash and cash equivalents / current liabilities*

As at 30 June 2015, liquidity ratios confirmed the Group's very well condition concerning its liquidity. Their slight decrease was a result of greater use of own funds to finance operations. Owing to its very good financial standing, ZUE SA has credit limits of PLN 130m to secure the use of funds to finance the performance of contracts.

### 3.2. Discussion of main items of income statement

Item (PLN '000)	30.06.2015	30.06.2014	Change	% change
Revenue	208,430	289,835	-81,405	-28.1%
Cost of sales	191,758	280,346	-88,588	-31.6%
<b>Gross profit (loss) on sales</b>	<b>16,672</b>	<b>9,489</b>	<b>7,183</b>	<b>75.7%</b>
General and administrative expenses	10,926	8,637	2,289	26.5%
Other operating income	4,535	2,848	1,687	59.2%
Other operating expenses	5,199	3,453	1,746	50.6%
Gain on bargain purchase	82	0	82	None
<b>EBITDA</b>	<b>9,763</b>	<b>4,386</b>	<b>5,378</b>	<b>122.6%</b>
<b>Operating profit (loss)</b>	<b>5,165</b>	<b>246</b>	<b>4,919</b>	<b>1,999.6%</b>
Financial income	555	900	-345	-38.3%
Financial expenses	713	811	-98	-12.1%
<b>Pre-tax profit (loss)</b>	<b>5,007</b>	<b>336</b>	<b>4,671</b>	<b>1,390.2%</b>
Corporate income tax	1,816	226	1,590	703.5%
<b>Consolidated net profit (loss)</b>	<b>3,191</b>	<b>110</b>	<b>3,081</b>	<b>2,800.9%</b>
Other total net comprehensive income	0	0	0	None
<b>Other net comprehensive income</b>				
<b>Items that will not be reclassified subsequently to profit or loss:</b>	127	39	88	225.64%
Remeasurement of liabilities under employee benefits	127	39	88	225.64%
<b>Other total net comprehensive income</b>	127	39	88	225.64%
<b>Total comprehensive income</b>	<b>3,318</b>	<b>149</b>	<b>3,169</b>	<b>2,126.8%</b>
<b>Number of shares</b>	<b>23,030</b>	<b>23,030</b>	<b>0</b>	<b>None</b>
<b>Consolidated net profit attributable to:</b>				
Shareholders of the parent	3,016	108	2,908	2,692.6%
Minority shareholders	175	2	173	8,650%
<b>Consolidated net profit (loss) per share (PLN)</b>	<b>0.13</b>	<b>0.00</b>	<b>0</b>	<b>None</b>

The Group's revenue in the reporting period was PLN 208,430 thousand; i.e. it decreased by 28.1% when compared with the analogous period of 2014. The amount is a result of a smaller number of contracts performed on the rail infrastructure market related to the final settlements of contracts from the previous EU's financial perspective and the expectation of new contracts from the 2014-2020 programme. Cost of sales decreased by 31.6% and amounted to PLN 191,758 thousand as at 30 June 2015. Gross profit on sales was PLN 16,672 thousand. Gross margin was 8.0% while in the first half of 2014, gross margin stood at 3.3%. This is a result of the Management Board's consistent policy aimed at the reduction of risks related to the performance of contracts and improvement of profitability through cost optimization and incentive systems.

General and administrative expenses in the reporting period stood at PLN 10,926 thousand (PLN 8,637 thousand in IH 2014). General and administrative expenses increased after a new member had been included in the Group.

Other operating income in the first half of 2015 stood at PLN 4,535 thousand and increased year-on-year by 59.2%. Other operating income was mainly fuelled by the proceeds from court settlement,

accident compensations and re-invoicing of shared costs to subcontractors and consortium members. Other operating expenses amounted to PLN 5,199 thousand and increased by 50.6% when compared with the analogous value of IH 2014. The increase in other operating expenses was mainly caused by the creation of the provisions for substandard receivables, increased value of not depreciated but liquidated non-current assets, costs of court proceedings and liquidation of damages. In the first half of 2015, the Group generated EBITDA of PLN 9,763 thousand. The Group's consolidated net profit in the first half of 2015 was PLN 3,191 thousand.

### 3.3. Discussion of profitability ratios

Item	30.06.2015	30.06.2014
Gross margin	8.00%	3.27%
EBITDA margin	4.68%	1.51%
EBIT margin	2.48%	0.08%
Gross margin	2.35%	0.11%
Net margin	1.53%	0.04%
ROA	0.77%	0.03%
ROE	1.58%	0.05%

**Formulas used to calculate the ratios:**

*Gross margin = gross profit / revenue*

*EBITDA = operating profit + depreciation / amortisation*

*EBITDA margin = EBITDA / revenue*

*EBIT margin = EBIT / revenue*

*Gross margin = gross profit / (revenue + other operating income + other financial income)*

*Net margin = net profit / revenue*

*ROA = net profit / assets*

*ROE = net profit / equity*

The increase in profitability ratios confirms the Group's stable financial position and more effective use of assets.

### 3.4. Discussion of cash flows

Item (PLN '000)	30.06.2015	30.06.2014
Cash flows from operating activities	-37,561	22,855
Cash flows from investing activities	-4,576	-2,839
Cash flows from financing activities	-5,393	-35,096
Total net cash flows	-47,530	-15,080
Foreign exchange gains / (losses)	6	1
Cash and cash equivalents at the beginning of the period	71,405	49,729
Cash and cash equivalents at the end of the period	23,882	34,651
Depreciation and amortisation	4,598	4,139

The Group ended the first half of 2015 with positive cash and cash equivalents of PLN 23,882 thousand. Net cash flows in the first six months of 2015 were negative and stood at PLN -47,530 thousand. Cash used in operating activities, including change in inventories of PLN 27,655 thousand and change in receivables and retentions on construction contracts of PLN 20,197 thousand had the biggest influence. Negative cash flows from investing activities were influenced by the expenditure of the extension and modernization of machines and the purchase of own shares. Decrease in obligations under finance lease and repayment of bank loans had an impact on negative cash flows from financing activities.

### 3.5. Off-balance sheet items of the Group

#### 3.5.1. Contingent liabilities

Item (PLN '000)	30.06.2015	31.12.2014
Bonds and guarantees	219,291	196,926
Sureties	450	2,100
Bills of exchange	127,254	126,865
Mortgages	53,748	54,348
Pledges	14,817	0
Court proceedings	0	0
<b>Total contingent liabilities</b>	<b>415,560</b>	<b>380,239</b>

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

In June 2015, a pledge to the benefit of BGŻ BNP PARIBAS S.A. was entered into the register of pledges to secure the revolving credit facility agreement no. WAR/2001/14/66/CB of 19 November 2014, as amended.

Bills of exchange and mortgages mainly secure credit facility and lease agreements as well as bonds and guarantees.

#### 3.5.2. Contingent assets

Item (PLN '000)	30.06.2015	31.12.2014
Bonds and guarantees	41,406	38,902
Bills of exchange	2,682	3,735
Sureties	0	0
Mortgages	0	0
<b>Total contingent assets</b>	<b>44,088</b>	<b>42,637</b>

Contingent assets secure the construction contracts concluded by the Group with subcontractors.



### 3.6. Basic risks related to the remaining months of the financial year

- **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 rates and the level of the budget deficit. Negative changes in Poland's macroeconomic situation, if any, may create a risk to the Group's business activity and, consequently, influence its financial results.

- **Risk related to inaccurate estimate of costs of planned and executed 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 three years and is related to a loss of financial liquidity by other entities operating in the same sector as the Group. This may have a negative influence on the Group's financial results.

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

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 to begin its projects may also occur. These factors could lead to the failure to execute or timely execute the construction projects and, consequently, have a considerable impact on the Group's financial results.

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

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 concluded a contract with a subcontractor, has a joint and several liability to pay for the construction services provided by further subcontractors. In addition, consortium members are liable on a joint and several basis to a contracting authority for the proper performance of their obligations under public procurement contracts. The 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 companies provide for the obligation to provide performance bonds and defects liability bonds in the form of deposits, or bank or insurance guarantees. Moreover, contracting authorities expect longer warranty periods. These contracts also provide for contractual penalties if a deadline for the completion of the tasks specified therein is missed. The 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, an investor may exercise its right to

use the bonds or demand contractual penalties or damages. In addition, the Group cannot exclude the risk of disputes related to the failure to duly or timely perform the contracts. The factors could have a negative impact on the Group's financial results.

- **Risk related to 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 failure to pay further subcontractors or the failure to perform a contract by a consortium member. In addition, it would have to cover the cost of tasks or supplies, which have not been completed by a bankrupt. If the Group's customer/contracting authority go bankrupt, the Group may not receive remuneration for the performed services. The factors could have a negative impact on the Group's financial results.

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

According to the Polish Civil Code, a contractor commissioned by the Group companies to execute a construction project may at any time demand the payment guarantee from individual companies (the contracting authorities) up to the amount of remuneration payable under a contract and other agreements. The failure to provide a satisfactory guarantee creates an obstacle to the completion of construction works through the fault of the Group. A contractor is then entitled to demand its remuneration under Art. 639 of the Polish Civil Code. Consequently, costs may grow and the execution of construction projects may be delayed or even made impossible. This could have a negative impact on the 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 their financial plans. A risk that a decision will be unfavourable or the tender will be cancelled by a contracting authority cannot be excluded. Such circumstances could have a negative impact on the Group's financial results.

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

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

- **Risk related to obtaining funds for construction contracts**

Given the difficult situation in the construction industry, both banks (credit facilities and bonding products) and insurance companies (bonding products) 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 borrowings and leases. These instruments are issued at variable interest rates and expose the Group to financial risk.

- **Credit risk**

The Group cooperates, as part of both financial and capital transactions, with highly credible financial institutions to reduce the concentration of credit risk.

The Group's financial assets exposed to increased credit risk include trade receivables (excluding the trade receivables from contracting authorities (investors) as part of investments executed pursuant to the Public Procurement Act). A credit risk for the contracts whose value exceeds PLN 16m is assessed and verified by the Group both at the stage of tender submission and at the stage of project execution.

Before a contract is signed, each counterparty is assessed in terms of their ability to fulfil their financial obligations. If the assessment is negative, signing of the contract is conditional at least on the provision of proper security on property or financial security. In addition, the Group tries to make sure that contracts with investors provide for the right to stop the works if the payment for the services already performed is delayed. If possible, contracts also provide for the Group's ability to pay its subcontractors after the Group has been paid by an investor.

The credit risk has increased recently for the Group because public sector entities more and more frequently expect the contractor to finance the entire project. Under the Public Procurement Act, contracting authorities are entitled to determine the terms of transaction, which provide for postponed dates of payment.

- **Risk related to atmospheric conditions**

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

- **Risk related to greater employment costs**

Given the changeable economic conditions, the Company's aspirations for constant development and raising the quality of the Company's services, 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 Group.

### **3.7. Factors believed to have an impact on the Group's result in the remaining months of the financial year**

The factors believed to have a bearing on the Group's financial results in the remaining months of 2015:

- **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 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 date of signing a contract with an investor may be substantially postponed both on the urban, rail and power infrastructure market.

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 2015 revenue may be transferred to 2016.

- **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 OCL network posts, lamp posts, tracks 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 Company is exposed to a price risk.

- **Higher fees charged by subcontractors**

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

- **Unstable EUR/PLN exchange rate**

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

### **3.8. ZUE Management Board statement on forecast financial results**

The Company did not publish any forecast 2015 financial results.

### 3.9. Other information believed by the Issuer to be significant for the assessment of its staff, economic and financial position and profit or loss

The Management Board of ZUE believe there is no information significant for the assessment of its staff, economic and financial position, profit or loss and changes therein, or information significant for the assessment of the Company's or the Group's ability to perform their obligations other than presented in this report.

## 4. OTHER INFORMATION ABOUT THE GROUP

### 4.1. Shareholding structure

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

Shareholder	Number of shares	Number of votes at the GM	% interest
Wiesław Nowak	14,400,320	14,400,320	62.53
METLIFE OFE <sup>1</sup>	1,400,000	1,400,000	6.08 <sup>2</sup>
PKO Bankowy OFE	1,500,000	1,500,000	6.51 <sup>3</sup>
Other <sup>4</sup>	5,729,763	5,729,763	24.88
<b>Total</b>	<b>23,030,083</b>	<b>23,030,083</b>	<b>100.00</b>

<sup>1</sup> Previously Amplico OFE.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> Including 264,652 ZUE shares repurchased by the Company as part of the buy-back of own shares.

No changes to the major shareholder structure have occurred since the publication of 1Q 2015 report.

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

Holdings of ZUE shares by members of the Issuer's management and supervisory bodies (according to the information held by the Management Board of ZUE on this report approval date):

Shareholder	Position	Number of shares	Number of shares at the GM	% interest
Wiesław Nowak	Management Board President	14,400,320	14,400,320	62.53
Marcin Wiśniewski	Management Board Vice-President	2,300	2300	0.01
Jerzy Czeremuga	Management Board Vice-President	136	136	<0.01
Maciej Nowak	Management Board Member	7,706	7,706	0.03
Magdalena Lis	Supervisory Board Member	7,345	7,345	0.03
Michał Lis	Supervisory Board Member	661	661	< 0.01

Other members of the Issuer's management and supervisory bodies do not hold any ZUE shares.

Members of the management and supervisory bodies do not have any rights to ZUE shares.

No changes to the holdings of ZUE shares by members of the management and supervisory bodies have occurred since the publication of 1Q 2015 report.

## 4.3. Court and administrative proceedings

At this report preparation date, the Group was a party to the pending court proceedings concerning both the claims and liabilities of ZUE with the total value of PLN 45.1m; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning the Company's liabilities was PLN 10.1m and the total value of the proceedings concerning the Company's claims was PLN 34.9m.

Below please find the proceedings whose value exceeds 10% of the Company's equity.

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 72.8m plus interest from 18 August 2012 until payment (with PLN 18.5m 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. POLiŚ 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.

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

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

(hereinafter jointly referred to as the "Participants" or the "Contractor") to take part in the conciliation proceedings concerning the Defendant's payment, on a joint and several basis, of PLN 28.0m plus statutory interest (the "Claim") to PKP PLK for the Defendant's delay in the completion of the construction works concerning the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction works on the siding as part of the project no. POLiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding" (the "Contract"). The Court hearing was held on 17 March 2015 but no agreement was reached between PKP PLK and the consortium. The Company believed it had properly performed its services and a part of the Claim of PKP PLK attributable to the Company was groundless.

The court proceedings are discussed in section 21 of the consolidated financial statements for the first half of 2015: "Proceedings before court, arbitration court or public administration authority at the date of this report publication."

## 5. GOVERNING BODIES

As at 1 January, the Company's Management Board included the following people:

<b>Wiesław Nowak</b>	Management Board President – CEO
<b>Marcin Wiśniewski</b>	Management Board Vice-President – Director of City Infrastructure Unit
<b>Jerzy Czeremuga</b>	Management Board Vice-President – Director of Power Infrastructure Unit
<b>Maciej Nowak</b>	Management Board Member – Legal and Corporate Director
<b>Anna Mroczek</b>	Management Board Member – Financial Director
<b>Arkadiusz Wierciński</b>	Management Board Member – Strategy and Investor Relations Director

On 31 July 2015, Mr. Arkadiusz Wierciński resigned from the position of Member of the Management Board of ZUE. As the Strategy Director, he was responsible for Corporate Supervision and Business Development. The Company intends to maintain the existing composition of the Management Board because the duties of Mr. Arkadiusz Wierciński will be taken over by other members.

The Company's Management Board at this report preparation date:

<b>Wiesław Nowak</b>	Management Board President – CEO
<b>Marcin Wiśniewski</b>	Management Board Vice-President – Director of City Infrastructure Unit
<b>Jerzy Czeremuga</b>	Management Board Vice-President – Director of Power Infrastructure Unit
<b>Maciej Nowak</b>	Management Board Member – Legal and Corporate Director
<b>Anna Mroczek</b>	Management Board Member – Financial Director

The composition of the Company's Supervisory Board did not change in 2015 and at this report preparation date, it included the following members:

<b>Mariusz Szubra</b>	Supervisory Board Chairman
<b>Bogusław Lipiński</b>	Supervisory Board Member
<b>Magdalena Lis</b>	Supervisory Board Member
<b>Piotr Korzeniowski</b>	Supervisory Board Member
<b>Michał Lis</b>	Supervisory Board Member



Wiesław Nowak – Management Board President .....

Marcin Wiśniewski – Management Board Vice-  
President .....

Jerzy Czeremuga – Management Board Vice-  
President .....

Maciej Nowak – Management Board Member .....

Anna Mroczek – Management Board Member .....

Cracow, 24 August 2015