



ZUE CAPITAL GROUP

MANAGEMENT BOARD REPORT

For the Period 1 January 2016 - 30 June 2016

Cracow, 19 August 2016

Abbreviations and definitions:

ZUE, Company, Issuer	<p>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.</p> <p>Parent company of the ZUE Capital Group.</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 0000332405, share capital of PLN 5,866,600 paid up in full.</p> <p>Subsidiary of ZUE.</p>
Railway gft	<p>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.</p> <p>Subsidiary of ZUE.</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 225,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI Germany	<p>Railway Technology International Germany GmbH with registered office in Hamburg, Germany, 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.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
ZUE Group, Group, Capital Group	ZUE Capital Group including ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.

Share capital details as at 30 June 2016.

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INTRODUCTION

This Report on Activities of ZUE Capital Group (the Group) between 1 January 2016 and 30 June 2016 contains the information whose scope has been set out in § 90.1.3 in connection with § 87.7.2-11 of the Regulations of the Minister of Finance of 19 February 2009 (as amended) 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.

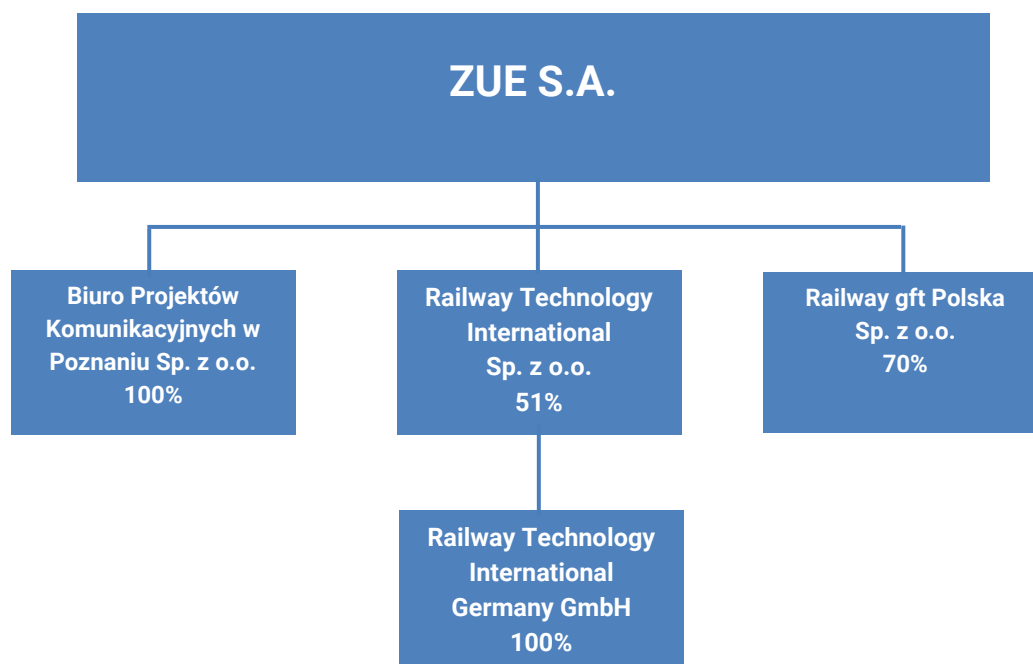
The abbreviated financial statements of the Group and ZUE S.A. (ZUE, the Parent Company, the Issuer), respectively, the elements of the extended consolidated report for the first half of 2016, have been prepared in accordance with regulations set out in the IAS/IFRS including, in particular, IAS 34 "Interim Financial Reporting."

OPERATIONAL INFORMATION

1. Organisation of the Capital Group

1.1. Structure of the Capital Group

Structure of the Capital Group at the report preparation date:



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.

1.2. Consolidated companies

Consolidated companies at 30 June 2016:

Company	Registered office	Interests as at			Consolidation method
		30 Jun 2016	31 Dec 2015	30 Jun 2015	
ZUE S.A.	Cracow	Parent company			
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	70%	70%	70%	Full

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

ZUE holds a 51% interest in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated as at 30 June 2016.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Germany GmbH was not consolidated as at 30 June 2016.

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

RTI

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

2. 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 required 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.

3. Sales markets

In the reporting period, the Group continued its construction, design and sales activities. The Group's sales markets are the consequence of the abovementioned segments and scope of activities.

In the reporting period, construction services were mainly provided to:

- PKP Polskie Linie Kolejowe S.A. The following contacts were performed by ZUE:

- Design and completion of construction works on the Cracow – Medyka – state border railway line, Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: “Modernisation of E 30/C-E 30 railway line, Cracow – Rzeszów section, stage III;”
- Upgrade of the track no. 2 of the railway line no. 131 on the Tarnowskie Góry – Kalety section, reconstruction of the Baronów station and the reconstruction of 18 crossovers at the Tarnowskie Góry station, as part of the following project: “Upgrade of the Chorzów Batory - Tczew railway line no. 131, the Bydgoszcz Główna - Zduńska Wola - Chorzów Batory section.” Net value attributable to ZUE is PLN 38,416 thousand;
- Design and construction services in connection with the following project: “Upgrade of the railroad surface with auxiliary works, Smolec junction signal box, track no. 1, the Smolec – Kąty Wrocławskie route, track no. 1, the Kąty Wrocławskie – Mietków route and track no. 3 in the Boguszów Gorce Zachód station,” – re-electrification of the Smolec – Kąty Wrocławskie route, track no. 1 as part of the following project: “Upgrade of Wrocław – Zgorzelec railway line no. 274 on the Wrocław-Jelenia Góra section;”
- Strengthening of the substructure on the line no. 139 Katowice – Zwardoń, tracks no. 1 and 2, section from 10,300 km to 25,360 km in the selected locations, and on the line no. 93 Trzebinia – Zebrzydowice, section from 62,260 km to 68,780 km in the selected locations, plus the accompanying works and services provided in connection with Substructure Repair Train with the use of AHM-800R formation rehabilitation machine, RM80 ballast cleaning machine and 20 hopper cars of type 426 Vb, representing the potential of the Contracting Authority - Zakład Maszyn Torowych w Krakowie. Net value attributable to ZUE is PLN 25,595 thousand;
- Construction works relating to the replacement of track structure with accompanying works on the Kluczbork - Poznań railway line no. 272, the Poznań Starołęka station, the Poznań Starołęka - Poznań Główny route, the Poznań Główny station, track no. 1 and 2, between 194,638 km and 200,524 km as part of the following project: “Structure replacement with accompanying works on the Kluczbork - Poznań railway line no. 272, the Kórnik - Poznań Główny section, and reconstruction of steel bridge on the Warta river at the Poznań Starołęka station at 196,254 km;”
- Upgrade of the railway line no. 62 on the Dąbrowa Górnicza Strzemieszyce – Sosnowiec Dańdówka section as part of the following project: “Works on the railway lines no. 62, 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 and completion of works in connection with the following project: “Design 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;
- Replacement of insulators in the traction network on the Warszawa-Katowice line no. 1, the Częstochowa – Poraj section, tracks no. 1 and 2 between 229,600 km to 245,191 km;
- Tramwaje Warszawskie Sp. z o.o. The following contacts were performed by ZUE:
 - “Reconstruction (upgrade) of the tram route on the Dworzec Wileński – Żerań Wschodni section;
 - Reconstruction of the tram tracks in the intersection of Połczyńska and Powstańców Śląskich Streets in Warsaw;
 - 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. – Completion of construction works consisting of the reconstruction of an administration and office building and necessary technical infrastructure on the plot no. 2/1, district 2029, of Tramwaje Szczecińskie Spółka z o.o. in al. Wojska Polskiego 200 in Szczecin;
- Polskie Sieci Elektroenergetyczne Spółka Akcyjna – “Construction of the double track 400 kV Kozienice – Ołtarzew.”

Design services relating to urban and rail communication systems are provided both to investors and companies, which perform contracts in a "design-build" formula. The biggest clients of BPK Poznań in the reporting period included: PKP Polskie Linie Kolejowe S.A., Poznańskie Inwestycje Miejskie, Torpol S.A. and Urząd Miasta Brwinów [the Municipal Council of Brwinów].

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

4. Portfolio of orders

At this report preparation date, the net value of the Group's portfolio of orders is approx. PLN 641m and provides it with an ability to provide the services in the period 2016-2019. As for assembly services, the net value of the signed contracts is approx. PLN 621m and for design services, the net value of the signed contracts is PLN 18m. The portfolio of orders for the supply of materials and equipment in 2016 is worth PLN 3m (net).

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

- Construction of the double track 400 kV Kozienice – Ołtarzew. Net value attributable to ZUE is PLN 469,000 thousand.
- Maintenance and repair of tram infrastructure in Cracow in the period 2015 – 2018. Net value attributable to ZUE is PLN 42,345 thousand.
- Design and completion of construction works as well as upgrade services on the Cracow – Medyka – state border railway line, Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E30/C-E30 railway line, Cracow – Rzeszów section, stage III." Total net value attributable to ZUE is PLN 180,886 thousand.
- Upgrade of the railway line no. 273 on the Głogów - Zielona Góra - Rzepin - Dolna Odra section. Reconstruction of tracks, platforms and viaduct in the Zielona Góra station. Net value attributable to ZUE, including supplementary works, is PLN 27,193 thousand.
- Design and completion of construction works on the Cracow – Medyka – state border railway line, Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E30/C-30 railway line, Cracow – Rzeszów section, stage III" Tender 1.3, No. IRZRG-216-04/10 POIiŚ 7.1-30-1.3 Reconstruction of the Tarnów - Mościce station (72.8-74.6 km). Net value attributable to ZUE is PLN 21,882 thousand.
- Design and completion of construction works as part of the following project: "Upgrade of the line no. 20 in the PKP Warszawa Gdańska station in connection with line E65 and Dworzec Gdański A17 subway station, stage II" as part of the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section)." Net value attributable to ZUE is PLN 17,741 thousand.
- "Strengthening of the substructure on the line no. 139 Katowice – Zwardoń, tracks no. 1 and 2, section from 10,300 km to 25,360 km in the selected locations, and on the line no. 93 Trzebinia – Zebrzydowice, section from 62,260 km to 68,780 km in the selected locations, plus the accompanying works and services provided in connection with Substructure Repair Train with the use of AHM-800R formation rehabilitation machine, RM80 ballast cleaning machine and 20 hopper cars of type 426 Vb, representing the potential of the Contracting Authority - Zakład Maszyn Torowych w Krakowie." Net value attributable to ZUE is PLN 25,595 thousand.
- "Construction works relating to the replacement of track structure with accompanying works on the Kluczbork - Poznań railway line no. 272, the Poznań Starołęka station, the Poznań Starołęka - Poznań Główny route, the Poznań Główny station, track no. 1 and 2, between 194,638 km and 200,524 km as part of the following project: "Structure replacement with accompanying works on the Kluczbork - Poznań railway line no. 272, the Kórnik - Poznań Główny section, and reconstruction of steel bridge on the Warta river at the Poznań Starołęka station at 196,254 km." Net value attributable to ZUE is PLN 26,400 thousand.
- Upgrade of the railway line no. 62 on the Dąbrowa Górnicza Strzemieszyce – Sosnowiec Dańdówka section as part of the following project: "Services in the railway lines no. 62 and 660 on the Tunel – Bukowno – Sosnowiec Pld section." Net value attributable to ZUE is PLN 12,447 thousand.
- Design and construction services in connection with the following project: "Preparation of documentation and completion of construction works on the Skarżysko Kamienna – Suchedniów section, railway line no. 8" as part of the following project: "Upgrade of the Radom - Kielce railway line no. 8. Net value attributable to ZUE is PLN 17,543 thousand.
- Construction of tram line to Tarchomin – stage II. Net value attributable to ZUE is PLN 16,630 thousand.

- Preparation of design documentation and completion of construction and assembly works as part of the following project: "Works on the Kraków Mydlniki – Podłęże railway line no. 95, the Kościelniki – Podłęże section." Net value attributable to ZUE is PLN 29,098 thousand.

The value of construction contracts signed in 2016 is PLN 176m.

In addition, at this report preparation date, ZUE submitted the lowest price tenders in the total amount of PLN 69.4m (Current reports 36/2016 and 40/2016).

A smaller number of construction and design contracts performed on the infrastructure market is a result of the final settlements of the contracts performed under the previous EU perspective and waiting for the new contracts financed from the EU perspective for the years 2014-2020. The Group companies participate in tenders both in Poland and abroad.

5. Strategic objectives

The Group's strategic objectives include:

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

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

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

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

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

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

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

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

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

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

Not only do the lengthy procurement procedures produce additional costs of the appeal but they also entail a risk of growth in prices of goods and services. Signing a contract at a later date may make a project execution conditional on weather conditions because certain projects must not be executed in low temperatures or heavy

snow or rain fall. Project execution may also be conditional on other factors; e.g. the date of closing the tracks by the contracting authority or the dates on which trees and bushes may be cut down. For these reasons, a part of the Group's revenue planned for the current year may be transferred to the next year.

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

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

- **Higher fees charged by subcontractors**

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

- **Unstable EUR/PLN exchange rate**

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

- **Outcome of court proceedings**

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

7. Fundamental risks and threats

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Risk related to logistics**

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

- **Risk related to bankruptcy of counterparties**

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

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

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

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

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

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

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

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

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

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

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

- **Interest rate risk**

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

- **Risk related to weather conditions**

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

- **Risk related to greater employments costs**

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

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

8. Major contracts

Construction contracts

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

On 29 January 2016, the Company learnt from PKP PLK about the exclusion of the Company from the tender procedure for procedural reasons and the selection of a tender submitted by a bidder other than the Company. Following the Issuer's appeal of 5 February 2016 against the abovementioned decision of PKP PLK, the Company learnt from PKP PLK that the selection by the Contracting Authority of a tender on 29 January 2016 had been cancelled after a well-grounded appeal had been lodged by the Issuer. On 8 February 2016, the Company received

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

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

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

On 8 March 2016, ZUE and PKP PLK S.A. signed the contract for "Strengthening of the substructure on the line no. 139 Katowice – Zwardoń, tracks no. 1 and 2, section from 10,300 km to 25,360 km in the selected locations, and on the line no. 93 Trzebinia – Zebrzydowice, section from 62,260 km to 68,780 km in the selected locations, plus the accompanying works and services provided in connection with Substructure Repair Train with the use of AHM-800R formation rehabilitation machine, RM80 ballast cleaning machine and 20 hopper cars of type 426 Vb, representing the potential of the Contracting Authority - Zakład Maszyn Torowych w Krakowie." The Company informed of the submission of the lowest price tender in the current report 10/2016 and the selection of the Company's tender as the most advantageous offer in the current report 12/2016. The contract net value: PLN 25.6m. The contract gross value: PLN 31.5m. Contract completion date: 31 December 2016. **(Current report 14/2016)**

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

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

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

On 7 June 2016, the consortium of the Company and Strabag sp. z o.o., and Tramwaje Warszawskie sp. z o.o. (Tramwaje Warszawskie) entered into the contract for “Construction of tram line to Tarchomin – stage II.” The total net value of the contracts entered into since 13 August 2015 between the companies comprising the ZUE Capital Group and the Group companies included in a consortium, and Tramwaje Warszawskie amounted to PLN 31.9m. **(Current report 33/2016)**

Financial agreements

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

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

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

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

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

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

9. Other events

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

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

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

(Current report 15/2016)

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

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

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

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

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

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

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

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

10. Major events after the reporting period

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

On 25 July 2016, the Company learnt of the Company's submission of the lowest price tender in the tender procedure for: "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 of the tender submitted by the Company was PLN 27.9m and the amount did not include the provisional sum of 4% of the tender net value (PLN 1.1m). Gross value of the tender submitted by the Company (including the provisional sum) was PLN 35.7m. The project completion date according to the specifications was set at 4 December 2017. However, according to the tender submitted by the Company, the project would be completed 60 days before the abovementioned date. **(Current report 36/2016)**

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

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

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

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

received from PKP PLK a signed annex to the contract for Design and completion of construction works on the Cracow – Medyka – state border railway line, Biadolin – Tarnów section between 61,300 km and 80,200 km as part of the following project: “Modernisation of E 30/C-E 30 railway line, Cracow – Rzeszów section, stage III” (the Contract). Under the said annex, the Contract completion date was extended by not more than 91 months of the commencement date (not more, however, than by 24 May 2018). **(Current report 39/2016)**

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

On 11 August 2016, the Company learnt about the Company’s submission of the lowest price tender in the tender procedure for: Design and completion of construction works in the area of the Medyka station in connection with the following project: “Investment works at the Medyka - Mościska II border crossing.” Net value of the tender submitted by the Company was PLN 41.5m. Gross value of the tender submitted by the Company was PLN 51.0m. The project completion date (the completion of all the works covered by the contract) was 1300 days of the contract conclusion date (not later than 20 May 2020). **(Current report 40/2016)**

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

11. Transactions with related entities

Transactions with related entities within the Group included typical sales transactions entered into on arm’s length terms.

Section 35 “Transactions with related entities” of the interim consolidated financial statements of the Group contains detailed information about transaction with related entities.

12. Bonds and guarantees

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

The value of unused bond lines at the end of the first half of 2016 exceeds PLN 279.2m and EUR 12.5m.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries’ liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the guarantees as at 30 June 2016 is PLN 11.9m.

At the end of the first half of 2016, the value of guarantees provided to secure sales transactions entered into by subsidiaries is PLN 10,000 thousand and EUR 11 thousand.

As part of their operations, the Group companies are provided by their subcontractors with performance bonds and defects liability bonds in the form of bonds and guarantees provided by banks and insurance companies or bills of exchange. They are presented in the financial statements as contingent assets whose value as at 30 June 2016 is PLN 28,800 thousand.

CORPORATE INFORMATION

13. Governing bodies

13.1. Management Board

Composition of the Company's Management Board at the report preparation date:

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

13.2. Supervisory Board

Composition of the Company's Supervisory Board at the report preparation date:

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

14. Shareholding structure

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

Shareholder	At the date of preparation of this half-yearly report; i.e. 19 August 2016		At the date of preparation of previous quarterly report; i.e. 29 April 2016	
	Number of shares/votes	% of the share capital/total number of votes	Number of shares/votes	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
METLIFE OFE *	1,400,000**	6.08	1,400,000**	6.08
PKO Bankowy OFE	1,500,000***	6.51	1,500,000***	6.51
Other	5,729,763****	24.88	5,729,763****	24.88
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.

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

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

Name	Position	Number of shares/votes at 19 August 2016	% of the share capital/total number of votes	Changes in shareholding since the preparation of the last quarterly report; i.e. 29 April 2016
Wiesław Nowak	Management Board President	14,400,320	62.53	None
Marcin Wiśniewski	Management Board Vice-President	2,300	0.01	None
Jerzy Czeremuga	Management Board Vice-President	136	< 0.01	None
Maciej Nowak	Management Board Member	7,806	0.03	+ 100 shares
Magdalena Lis	Supervisory Board Vice-Chairperson	7,565	0.03	+ 20 shares
Michał Lis	Supervisory Board Member	661	< 0.01	None

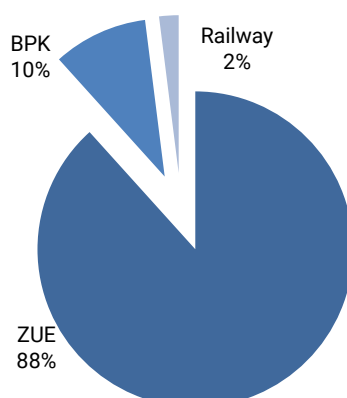
According to the best knowledge of the Company's Management Board, other members of the Issuer's management or supervisory bodies did not hold any ZUE shares at this report preparation date.

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

16. Employment in the Group

At 30.06.2016, the Capital Group employed 753 people.

Employment in the Group



17. Court and administrative proceedings

At the date of preparation of this report, the Group is a party to the pending court proceedings concerning the Group's claims and liabilities of the total value of PLN 36,281,897.20; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 2,532,610.66 and the total value of the proceedings concerning claims is PLN 33,749,286.54.

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

The biggest pending court proceeding concerning liabilities:

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

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

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

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

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

The biggest pending court proceeding concerning claims:

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

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

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

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

(hereinafter jointly referred to as the Participants or the Contractor) to take part in the conciliation proceedings concerning the Defendant's payment, on a joint and several basis, of PLN 27,963,053.62 plus statutory interest (the Claim) to PKP PLK for the Defendant's delay in the completion of the construction works concerning the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction works on the siding as part of the project no. 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.

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

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

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

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

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

FINANCIAL INFORMATION

The half-yearly 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.

18. Discussion of items of profit or loss

The table below sets out the items of the consolidated statement of profit or loss recorded by the Group in the first half of 2016 and comparative information for the first half of 2015.

Item (PLN '000)	30.06.2016	30.06.2015	Change	% change
Revenue	127,774	208,430	-80,656	-38.7%
Cost of sales	122,227	191,758	-69,531	-36.3%
Gross profit (loss)	5,547	16,672	-11,125	-66.7%
General and administrative expenses	10,625	10,926	-301	-2.8%
Other operating income	3,059	4,535	-1,475	-32.5%
Other operating expenses	592	5,198	-4,606	-88.6%
Gain on bargain purchase	0	82	-82	100.0%
Operating profit (loss)	-2,611	5,165	-7,775	-150.5%
Financial income	1742	555	1,187	213.7%
Financial expenses	628	713	-85	-11.9%
Pre-tax profit (loss)	-1,497	5,007	-6,504	-129.9%
Corporate income tax	63	1,816	-1,753	-96.5%
Consolidated net profit (loss)	-1,560	3,191	-4,751	-148.9%
Other total net comprehensive income		0		
Other net comprehensive income				
Items that will not be reclassified subsequently to profit or loss:	13	127	-114	-89.8%
Remeasurement of liabilities under employee benefits	13	127	-114	-89.8%
Other total net comprehensive income	13	127	-114	-89.8%
Total comprehensive income	-1,547	3,318	-4,865	-146.6%
Number of shares	23,030,083	23,030,083	0	0.0%
Consolidated net profit attributable to:				
Shareholders of the parent	-1,250	3,016	-4,266	-141.4%
Minority shareholders	-310	175	-485	-277.1%
Consolidated net profit (loss) per share (PLN)	-0.05	0.14	0	-138.4%

Revenue reported in the consolidated financial statements for the period 1 January - 30 June 2016 was PLN 127,774 thousand and decreased by 38.7% when compared with the analogous period of 2015. This was a result of an expected downturn in the Polish rail and urban infrastructure construction industry and expectation of an amendment to the Polish public procurement act. On 28 July 2016, a "small amendment" to the public procurement act came into force whereby UE regulations were implemented to make procurement procedures more simple and flexible and to make a better use of computer technology. Lengthy implementation of new procedures and preparation of tender documentation stopped big rail projects. This was accompanied by tender procedures for small contracts. These factors contributed to a greater fragmentation of the portfolio of orders.

The performance of contracts won by ZUE in 2016 began in the second quarter of 2016 and, consequently, did not have any major influence on the volume of sales in the reporting period.

Other operating income reported by the Group in the reporting period was PLN 3,059 thousand. The item was mainly influenced by a release of the provision created in 2012 for the risk relating to the final contract settlement in connection with the agreement between ZUE (legal successor of Przedsiębiorstwo Robót Komunikacyjnych S.A.) and Przedsiębiorstwo Komunikacji Miejskiej in Tychy (PKM).

General and administrative expenses in the first half of 2016 stood at PLN 10,625 thousand – down by 2.8% compared to general and administrative expenses reported for the analogous period of 2015.

The table below sets out the results recorded by the Group and the Company in the first half of 2016.

Item	Group (PLN '000)	Company (PLN '000)
Gross profit (loss)	5,547	4,395
EBIT	-2,611	-2,075
EBITDA	2,136	2,435
Pre-tax profit (loss)	-1,497	-700
Net profit (loss)	-1,560	-696

The results disclosed in the reporting period reflect the activities undertaken by the Group to maintain the same workload capacity using much lower revenue (down by 38.7 when compared with 1H 2015). Consequently, all margins are lower than reported in the first half of 2015 (see Table 22.3).

19. Discussion of results reported by segments

The total revenue generated by the Group is PLN 127,774 thousand. Construction activity has the biggest share in the Group's revenue.

Item (PLN '000)	Construction	Sales	Design	Exclusions	Total
Revenue	111,902	35,707	4,311	-24,146	127,774

Sales activities conducted by Railway gft in the reporting period generated a net loss of PLN -747 thousand (gross profit of PLN 596 thousand).

A decline in sales was predominantly influenced by a worse economic situation in the rail and urban infrastructure industry as this segment strongly depends on the current market situation.

Design activity conducted by BPK Poznań is still being restructured and the segment is building the portfolio of orders for subsequent years. In the first half of 2016, the segment reported a gross profit of PLN 759 thousand. BPK Poznań ended the first half of 2016 with a net loss of PLN -53 thousand. Design activities supplement construction activities.

20. Discussion of balance sheet items

The table below sets out the items of the consolidated statement of financial position recorded by the Group as at 30 June 2016 and the comparative information as at 31 December 2015.

Item (PLN '000)	30.06.2016	31.12.2015	Change	% change
NON-CURRENT ASSETS				
Property, plant and equipment	79,483	81,619	-2,136	-2.6%
Investment property	3,885	4,062	-177	-4.4%
Intangible assets	9,854	10,178	-324	-3.2%
Goodwill	31,172	31,172	0	0.0%
Investments in non-consolidated subsidiaries	118	29	89	306.9%
Advance payments for investments in subordinates	0	0	0	
Long-term receivables	0	0	0	
Retentions on construction contracts	7,228	5,614	1,614	28.7%
Deferred tax assets	9,512	8,647	865	10.0%
Other assets	0	0	0	0.0%
Total non-current assets	141,252	141,321	-68	0.0%
CURRENT ASSETS				
Inventories	26,307	25,859	448	1.7%
Trade and other receivables	85,531	77,839	7,692	9.9%
Retentions on construction contracts	1,462	770	692	89.9%
Current tax assets	2,251	4,030	-1,779	-44.1%
Other financial receivables	0	0	0	
Other assets	1,049	1,234	-185	-15.0%
Loans advanced	13	158	-145	-91.8%
Cash and cash equivalents	120,648	172,334	-51,686	-30.0%
Total current assets	237,261	282,224	-44,963	-15.9%
TOTAL ASSETS	378,513	423,545	-45,032	-10.6%
EQUITY AND LIABILITIES				
Share capital	5,758	5,758	0	0.0%
Share premium account	93,837	93,837	0	0.0%
Treasury shares	-2,690	-2,690	0	0.0%
Retained earnings	110,300	119,051	-8,751	-7.4%
Total equity	207,205	215,955	-8,750	-4.1%
Equity attributable to non-controlling interests	79	389	-310	-79.7%
Total equity	207,284	216,344	-9,060	-4.2%
NON-CURRENT LIABILITIES				
Long-term bank borrowings and other debt instruments and other financing sources	8,193	11,208	-3,015	-26.9%
Retentions on construction contracts	7,931	8,012	-81	-1.0%
Other financial liabilities	770	910	-140	-15.4%
Liabilities under employee benefits	1,965	1,946	19	1.0%
Deferred tax liabilities	0	170	-170	-100.0%
Long-term provisions	7,783	6,957	826	11.9%
Deferred income	0	0	0	
Other liabilities	0	0	0	
Total non-current liabilities	26,642	29,203	-2,561	-8.8%
CURRENT LIABILITIES				
Trade and other payables	99,394	117,730	-18,336	-15.6%
Retentions on construction contracts	7,625	11,715	-4,090	-34.9%
Short-term bank borrowings and other debt instruments and other financing sources	11,688	11,841	-153	-1.3%
Other financial liabilities	317	317	0	0.0%
Liabilities under employee benefits	17,149	22,988	-5,839	-25.4%
Current tax liabilities	0	66	-66	-100.0%
Short-term provisions	8,414	13,341	-4,927	-36.9%
Total current liabilities	144,587	177,998	-33,411	-18.8%
Total liabilities	171,229	207,201	-35,972	-17.4%
TOTAL EQUITY AND LIABILITIES	378,513	423,545	-45,032	-10.6%

At the end of the reporting period, the Group's total assets and liabilities stood at PLN 378,513 thousand and decreased by 10.6% compared to the analogous figure reported at the end of 2015.

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

- 1) Current assets:
 - Increase in trade and other receivables by PLN 7,692 thousand;
 - Decrease in cash and cash equivalents by PLN 51,686 thousand as a result of payment of dividend and settlement of contracts completed at the end of 2015 including the receipt of receivables at the end of 2015 and the payment of payables in 2016;
- 2) Equity and liabilities:
 - Decrease in trade and other payables by PLN 18,336 thousand;
 - Decrease in current liabilities under employee benefits by PLN 5,839 thousand;
 - Decrease in short-term provisions by PLN 4,927 thousand;
 - Decrease in retentions on construction contracts by PLN 4,090 thousand as a result of the settlement of construction contracts.

At 30 June 2016, the value of unused credit limits within the Group was PLN 73,362 thousand.

21. Discussion of items of the statement of cash flows

Item (PLN '000)	30.06.2016	30.06.2015	Change
Cash flows from operating activities	-40,028	-37,561	-2,467
Cash flows from investing activities	-1,471	-4,576	3,105
Cash flows from financing activities	-10,940	-5,393	-5,547
Total net cash flows	-52,439	-47,530	-4,909
Foreign exchange gains / (losses)	753	7	746
Cash and cash equivalents at the beginning of the period	172,334	71,405	100,929
Cash and cash equivalents at the end of the period	120,648	23,882	96,766
Depreciation / amortisation	4,747	4,598	149

The Group ended the first half of 2016 with positive cash and cash equivalents of PLN 120,648 thousand. In the first six months of 2016, net cash flows were negative and amounted to PLN 52,439 thousand. When compared with the analogous period of 2015, cash used in operating activities was higher by PLN 2,467 thousand. Negative cash flows from investing activities were influenced by expenditures on the extension and modernisation of machines. The repayment of finance lease liabilities and bank loans as well as the payment of dividend influenced negative cash flows from financing activities. A decrease in cash and cash equivalents by PLN 51,686 thousand is a result of the payment of dividend and the settlement of contracts completed at the end of 2015 including the receipt of receivables at the end of 2015 and the payment of payables in 2016.

22. Analysis of ratios

22.1. Debt ratios

Item	30.06.2016	31.12.2015	Rules of ratio calculation
Debt ratio	0.5	0.5	<i>(non-current and current liabilities + provisions for liabilities) / total assets</i>
Debt to equity ratio	0.8	1.0	<i>(non-current and current liabilities) / equity</i>
Equity to assets ratio	0.5	0.5	<i>equity / total assets</i>
Fixed capital to non-current assets ratio	1.7	1.7	<i>(equity + non-current liabilities) / non-current assets</i>
Short-term debt ratio	0.4	0.4	<i>current liabilities / total assets</i>
Long-term debt ratio	0.1	0.1	<i>non-current liabilities / total assets</i>
Interest coverage ratio	-9.6	49.4	<i>EBIT / interest</i>

22.2. Liquidity ratios

Item	30.06.2016	31.12.2015	Rules of ratio calculation
Working capital	92,674	104,226	<i>current assets – current liabilities</i>
Current ratio	1.6	1.6	<i>current assets / current liabilities</i>
Quick ratio	1.5	1.4	<i>(current assets – inventory) / current liabilities</i>
Cash ratio	0.8	1.0	<i>cash and cash equivalents / current liabilities</i>

22.3. Profitability margins

Item	30.06.2016	30.06.2015	Rules of ratio calculation
Gross margin	4.34%	8.00%	<i>gross profit / revenue</i>
EBITDA margin	1.67%	4.68%	<i>EBITDA / revenue</i>
EBIT margin	-2.04%	2.48%	<i>EBIT / revenue</i>
Gross margin	-1.13%	2.35%	<i>gross profit / (revenue + other operating income + other financial income)</i>
Net margin	-1.22%	1.53%	<i>net profit / revenue</i>
ROA	-0.41%	0.85%	<i>net profit / assets</i>
ROE	-0.75%	1.54%	<i>net profit / equity</i>

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

The Company did not publish any forecast 2016 financial results.

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

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.

STATEMENTS BY THE MANAGEMENT BOARD OF ZUE S.A.

25. Statement on compliance

The Management Board of ZUE state that according to their best knowledge, the half-yearly abbreviated financial statements for H1 2016 and the comparative information been prepared in accordance with applicable accounting principles and give a true and fair view of the economic and financial position of the Company and the Group and their financial performance. The report on activities contains a true view of the Group's development and achievements and the Group's standing, including the description of fundamental risks and threads.

26. Statement on appointment of auditor

The Management Board of ZUE state that the entity responsible for the audit of the half-yearly abbreviated consolidated financial statements was appointed pursuant to applicable laws. The entity authorized to audit the financial statements and chartered auditors involved in the audit met the requirements necessary to make an unbiased and independent opinion on the audited half-yearly abbreviated financial statements in accordance with applicable laws and professional standards.

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, 19 August 2016