



**CONSOLIDATED HALF-YEARLY REPORT
FOR 6 MONTHS ENDED 30 JUNE 2016
ZUE Capital Group**

Cracow, 19 August 2016

Contents of the consolidated half-yearly report:

- I. Selected Financial Data of the Group.
- II. Abbreviated Consolidated Financial Statements of the Group and Notes to the Financial Statements.
- III. Selected Financial Data of ZUE.
- IV. Abbreviated Separate Financial Statements of ZUE and Notes to the Financial Statements, and the following separate documents:
 - Management Board Report;
 - Auditor's Report on Review of Abbreviated Consolidated Financial Statements of the Group; and
 - Auditor's Report on Review of Abbreviated Separate Financial Statements of ZUE.

Abbreviations and definitions:

ZUE, Company, Issuer	ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,757,520.75 paid up in full. Parent company of the ZUE Capital Group.
BPK Poznań	Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 5,866,600 paid up in full. Subsidiary of ZUE.
Railway gft	Railway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full. Subsidiary of ZUE.
RTI	Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 225,000 paid up in full. Subsidiary of ZUE.
RTI Germany	Railway Technology International Germany GmbH with registered office in Hamburg, Germany, entered into the German Register of Entrepreneurs (<i>Handelsregister B, HRB</i>) maintained by the District Court in Hamburg (<i>Amtsgericht Hamburg</i>) under entry number HRB 125764. Share capital of EUR 25,000 paid up in full. Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
ZUE Group, Group, Capital Group	ZUE Capital Group including ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Journal of Laws 2000, no. 94, item 1037, as amended).

Share capital details as at 30 June 2016.

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ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS
FOR 6 MONTHS ENDED 30 JUNE 2016
ZUE Capital Group

Cracow, 19 August 2016

I. SELECTED FINANCIAL DATA OF THE GROUP

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on	Exchange rate on	Exchange rate on
		30-06-2016	31-12-2015	30-06-2015
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.4255	4.2615	n/a
Items of statement of profit or loss and statement of cash flows	Arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month of the period	4.3805	4.1848	4.1341
"Cash at the beginning of the period" and "Cash at the end of the period" items in the statement of cash flows	Mid exchange rate prevailing at the end of the reporting period	4.4255	4.2615	4.1944

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

	As at 30-06-2016		As at 31-12-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	141,252	31,918	141,321	33,163
Current assets	237,261	53,612	282,224	66,226
Total assets	378,513	85,530	423,545	99,389
Equity	207,284	46,839	216,344	50,767
Non-current liabilities	26,642	6,020	29,203	6,853
Current liabilities	144,587	32,671	177,998	41,769
Total equity and liabilities	378,513	85,530	423,545	99,389

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

	6 months ended 30-06-2016		6 months ended 30-06-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	127,774	29,169	208,430	50,417
Cost of sales	122,227	27,903	191,758	46,384

Gross profit (loss) on sales	5,547	1,266	16,672	4,033
Profit (loss) on operating activities	-2,611	-596	5,165	1,249
Gross profit (loss)	-1,497	-342	5,007	1,211
Net profit (loss) on continuing operations	-1,560	-356	3,191	772
Total comprehensive income	-1,547	-353	3,318	803

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

	6 months ended		6 months ended	
	30-06-2016		30-06-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-40,028	-9,138	-37,561	-9,086
Cash flows from investing activities	-1,471	-336	-4,576	-1,107
Cash flows from financing activities	-10,940	-2,497	-5,393	-1,304
Total net cash flows	-52,439	-11,971	-47,530	-11,497
Cash at the beginning of the period	172,334	40,440	71,405	16,753
Cash at the end of the period	120,648	27,262	23,882	5,694

II. ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Consolidated statement of comprehensive income

(PLN '000)

Continuing operations	6 months ended 30-06-2016	6 months ended 30-06-2015
Revenue	127,774	208,430
Cost of sales	122,227	191,758
Gross profit (loss) on sales	5,547	16,672
General and administrative expenses	10,625	10,926
Other operating income	3,059	4,535
Other operating expenses	592	5,198
Gain on bargain purchase	0	82
Profit (loss) on operating activities	-2,611	5,165
Financial income	1,742	555
Financial expenses	628	713
Pre-tax profit (loss)	-1,497	5,007
Corporate income tax	63	1,816
Net profit (loss) from continuing operations	-1,560	3,191
Net profit (loss)	-1,560	3,191
Other net comprehensive income		
Items that will not be reclassified subsequently to profit or loss:	13	127
Remeasurement of liabilities under employee benefits	13	127
Other total net comprehensive income	13	127
Total comprehensive income	-1,547	3,318
Number of shares	23,030,083	23,030,083
Consolidated net profit attributable to:		
Shareholders of the parent	-1,250	3,016
Non-controlling interests	-310	175
Net profit (loss) per share (PLN) (basic and diluted)	-0,05	0,13
Total comprehensive income attributable to:		
Shareholders of the parent	-1,237	3,143
Non-controlling interests	-310	175
Total comprehensive income per share (PLN)	-0.05	0.14

Consolidated statement of financial position

	(PLN '000)	
	As at 30-06-2016	As at 31-12-2015
ASSETS		
Non-current assets		
Property, plant and equipment	79,483	81,619
Investment property	3,885	4,062
Intangible assets	9,854	10,178
Goodwill	31,172	31,172
Investments in non-consolidated subsidiaries	118	29
Advance payments for investments in subordinates	0	0
Long-term receivables	0	0
Retentions on construction contracts	7,228	5,614
Deferred tax assets	9,512	8,647
Other assets	0	0
Total non-current assets	141,252	141,321
Current assets		
Inventories	26,307	25,859
Trade and other receivables	85,531	77,839
Retentions on construction contracts	1,462	770
Current tax assets	2,251	4,030
Other financial receivables	0	0
Other assets	1,049	1,234
Loans advanced	13	158
Cash and cash equivalents	120,648	172,334
Total current assets	237,261	282,224
Total assets	378,513	423,545

	As at 30-06-2016	As at 31-12-2015
EQUITY AND LIABILITIES		
Equity		
Share capital	5,758	5,758
Share premium account	93,837	93,837
Treasury shares	-2,690	-2,690
Retained earnings	110,300	119,050
Total equity attributable to shareholders of ZUE	207,205	215,955
Equity attributable to non-controlling interests	79	389
Total equity	207,284	216,344
Non-current liabilities		
Long-term bank borrowings and other debt instruments and other financing sources	8,193	11,208
Retentions on construction contracts	7,931	8,012
Other financial liabilities	770	910
Liabilities under employee benefits	1,965	1,946
Deferred tax liabilities	0	170
Long-term provisions	7,783	6,957
Deferred revenue	0	0
Other liabilities	0	0
Total non-current liabilities	26,642	29,203
Current liabilities		
Trade and other payables	99,394	117,730
Retentions on construction contracts	7,625	11,715
Short-term bank borrowings and other debt instruments and other financing sources	11,688	11,841
Other financial liabilities	317	317
Liabilities under employee benefits	17,149	22,988
Current tax liabilities	0	66
Short-term provisions	8,414	13,341
Total current liabilities	144,587	177,998
Total liabilities	171,229	207,201
Total equity and liabilities	378,513	423,545

Consolidated statement of changes in equity

(PLN '000)

		Share capital	Share premium account	Treasury shares	Retained earnings	Total	Equity attributable to non- controlling interests	Total equity
Balance at	1 Jan 2016	5,758	93,837	-2,690	119,050	215,955	389	216,344
Change of interest in subsidiaries		0	0	0	0	0	0	0
Dividend		0	0	0	-7,513	-7,513	0	-7,513
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Repurchase of shares		0	0	0	0	0	0	0
Profit (loss) for the year		0	0	0	-1,250	-1,250	-310	-1,560
Other net comprehensive income		0	0	0	13	13	0	13
Balance at	30 Jun 2016	5,758	93,837	-2,690	110,300	207,205	79	207,284

		Share capital	Share premium account	Treasury shares	Retained earnings	Total	Equity attributable to non- controlling interests	Total equity
Balance at	1 Jan 2015	5,758	93,837	0	101,856	201,451	0	201,451
Change of interest in subsidiaries		0	0	0	0	0	125	125
Dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Repurchase of shares		0	0	-2,642	0	-2,642	0	-2,642

Profit (loss) for the year		0	0	0	3,016	3,016	175	3,191
Other net comprehensive income		0	0	0	127	127	0	127
Balance at	30 Jun 2015	5,758	93,837	-2,642	104,999	201,952	300	202,252

Consolidated statement of cash flows

(PLN '000)

	6 months ended 30-06-2016	6 months ended 30-06-2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-1,497	5,007
Adjustments for:		
Depreciation and amortisation	4,747	4,598
Foreign exchange gains / (losses)	-753	-6
Interest and share in profit (dividends)	-547	-121
(Gain) / loss on disposal of investments	17	2,277
Accrued expenses under commission on loans	0	104
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit before changes in working capital	1,967	11,859
Change in receivables and retentions on construction contracts	-9,972	-20,197
Change in inventories	-456	-27,655
Change in provisions and liabilities under employee benefits	-9,920	6,903
Change in retentions on construction contracts and liabilities, excluding borrowings, other debt instruments and other financing sources	-22,497	-11,336
Change in accrued expenses	204	804
Change in funds of limited availability	0	0
Other adjustments	110	250
Income tax paid / (refunded)	536	1,811
NET CASH FROM OPERATING ACTIVITIES	-40,028	-37,561
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	185	408
Purchase of property, plant and equipment and intangible assets	-2,665	-3,562
Investments in real property and intangible assets	-1	0
Sale / (purchase) of financial assets in other entities	0	3
Sale / (purchase) of financial assets from non-controlling shareholders	0	-4
Purchase of financial assets available for sale	0	-2,642
Loans advanced	-13	-10
Repayment of loans advanced	74	0
Dividends received	0	0
Interest received	949	382
Settlement of financial instruments – expenses	0	0
Cash from acquisition of subsidiary	0	849
Sale of financial assets in associates	0	0
Other cash provided by / (used in) investing activities	0	0

NET CASH FROM INVESTING ACTIVITIES	-1,471	-4,576
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings and other debt instruments received	138	0
Repayment of borrowings and other debt instruments	-140	-3,056
Decrease in finance lease liabilities	-3,154	-2,163
Interest paid	-271	-260
Other cash provided by / (used in) financing activities – dividends	-7,513	-2
Net cash provided by issue of shares	0	88
NET CASH FLOWS FROM FINANCING ACTIVITIES	-10,940	-5,393
TOTAL NET CASH FLOWS	-52,439	-47,530
Net foreign exchange gains / (losses)	753	7
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	172,334	71,405
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	120,648	23,882

Notes to Abbreviated Consolidated Financial Statements of the Group

1. Functional and reporting currency

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

2. Use of International Financial Reporting Standards

Statement of compliance

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

The consolidated half-yearly financial statements for the first six months ended 30 June 2016 have been prepared according to the requirements binding on public companies.

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

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

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations – approved of in the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure Initiative – approved of in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation – approved of in the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Agriculture: Bearer Plants – approved of in the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 19 "Employee Benefits"** – Specific Benefit Programmes: Employee Benefits, approved of in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- **Amendments to IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements – approved of in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);

- **Amendments to various standards "Improvements to IFRSs (2010-2012 Cycle)"** – made as part of annual improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at the resolution of inconsistencies and specification of vocabulary, approved of in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- **Amendments to various standards "Improvements to IFRSs (2012-2014 Cycle)"** – made as part of annual improvements to IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) aimed mainly at the resolution of inconsistencies and specification of vocabulary, approved of in the EU on 15 December 2015 (effective for annual periods beginning on or after 1 January 2016).

The abovementioned amendments to existing standards or interpretations did not have any material influence on the Group's financial results for 2016.

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

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

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

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

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided not to approve this standard for use in the EU until the final version of the IFRS 14 is issued;
- **IFRS 15 "Revenue from Contracts with Customers"** and subsequent amendments (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 2 "Share-based payment"** – Classification and Measurement of Share-based Payment transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 10 "Consolidated Financial Statements," IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and subsequent amendments (effective date was postponed until the completion of research on equity method);
- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

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

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

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

3. Important accounting principles

Going concern

The 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.

Preparation basis

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

Comparability of financial information

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

Applied accounting principles

These half-yearly consolidated financial statements for the six months ended 30 June 2016 have been prepared according to the same accounting principles and measurement methods as those used in the last annual financial statements of the Group as at 31 December 2015. The financial statements for the financial year ended 31 December 2015 contain a detailed description of accounting principles used by the Group.

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

4. Revisions to estimates

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

Change in provisions

(PLN '000)

Provisions	01-01-2016	Created	Used	Released	Reclassified	30-06-2016
Long-term provisions:	8,903	428	27	419	-863	9,748
Provisions for employee benefits	1,946	23	-1	5	0	1,965
Provisions for warranty claims	6,957	405	28	414	-863	7,783
Other provisions	0	0	0	0	0	0
Short-term provisions:	30,356	8,816	10,027	8,236	863	20,046
Provisions for employee benefits	17,015	5,912	9,812	1,483	0	11,632
Provisions for warranty claims	9,192	42	193	4,141	863	4,037
Provision for loss on contracts	1,418	2,859	22	1,112	0	3,143
Other provisions	2,731	3	0	1,500	0	1,234
Total provisions:	39,259	9,244	10,054	8,655	0	29,794

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Group companies. The amount of the provision depends on the amount of revenues taking account of the liability of subcontractors for the works they have been entrusted with. During the contract performance, provisions for warranty claims are recognised in costs of sales on the basis on the proportion of costs incurred. The amount of provisions may decrease or increase on the basis of inspections of construction works carried out in subsequent years of warranty.

Provisions for employee benefits include the provisions for leaves, bonuses and overtime work. Apart from provisions for employee benefits, short-term liabilities under employee benefits include liabilities relating to salaries and social security premiums.

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

Deferred tax assets and liabilities

	01-01-2016	Created	Used	(PLN '000) 30-06-2016
Deferred tax assets	21,771	1,886	0	23,657
Deferred tax liability	13,294	851	0	14,145
Balance of assets and liabilities	8,477			9,512

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

Operational information

5. Composition of the Capital Group and its core business

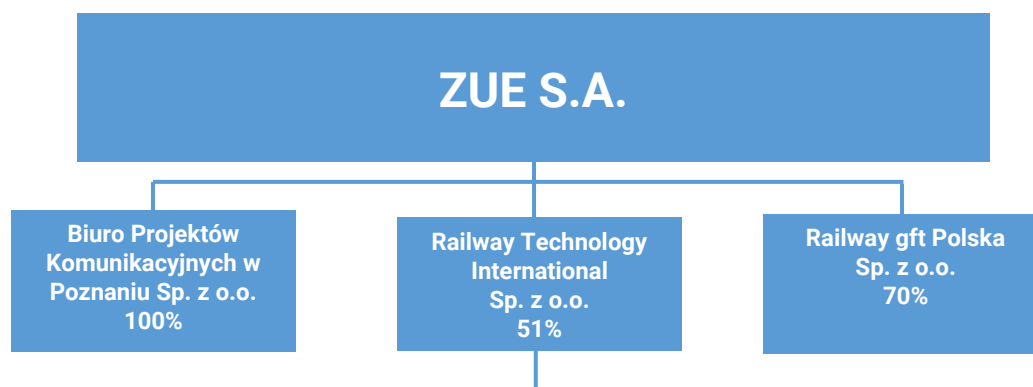
At the end of the reporting period, the Capital Group is composed of ZUE S.A. (parent company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o and Railway Technology International Germany GmbH (indirect subsidiary).

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

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

ZUE is the parent company responsible for coordinating the operation of the subsidiaries and optimising the Capital Group's operating expenses through, *inter alia*, the coordination of investment and borrowing policy as well as the management of finances, human resources and the supply of materials. In addition, ZUE's task is to create a uniform trade and marketing policy of the Capital Group and to promote the Group's potential among its customers.

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



Railway Technology
International Germany
GmbH
100%

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

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

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

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

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

6. Consolidated companies

Consolidated companies at 30 June 2016:

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

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

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

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

RTI

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

8. Activities of the Capital Group

The Group identifies the three aggregate operating segments:

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

Construction activities include:

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

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

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

- Rails for railways, tramways and cranes; special profiles, light rails and narrow-gauge railway;
- Steel, wooden and pre-stressed concrete sleepers;
- Crossovers and crossover components;
- Accessories required to build tram and railway tracks;
- Aggregate;
- Special technologies: RHEDA 2000® slab tracks, RHEDA CITY C, RHEDA CITY GREEN tram systems, "Ypsylon" steel sleepers.

9. **Sales markets**

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

Section 3 of the Management Board's Report on the Group's activities contains a detailed description of the sales markets.

10. **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 subsequent quarters of 2016 is worth PLN 3m (net)

Section 4 of the Management Board's Report on the Group's activities contains a detailed description of the portfolio of orders.

11. **Major events in the reporting period**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12. Other events

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

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

13. 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 – Podłęże railway line no. 95 of the Kościelniki – Podłęże 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 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 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 19 August 2016, the Company published preliminary separate and consolidated financial results for the first half of 2016. **(Current report 42/2016)**

14. Bonds and guarantees

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

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 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.

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

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

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

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

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

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

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

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

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

- **Higher fees charged by subcontractors**

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

- **Unstable EUR/PLN exchange rate**

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

- **Outcome of court proceedings**

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

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

No unusual factors or events occurred in the reporting period.

17. Risks believed by the Group to have an influence on the Group's future results

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Risk related to logistics**

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

- **Risk related to bankruptcy of counterparties**

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

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

According to the Polish Civil Code, a contractor commissioned by the Company to execute a construction project may at any time demand the payment guarantee from the Company (the client) up to the amount of remuneration payable under a contract and other agreements. The failure to provide a satisfactory guarantee creates an obstacle to the completion of construction works through the fault of the Company. A contractor is then entitled

to terminate a contract under Art. 649[4] §1 of the Polish Civil Code and demand its remuneration under Art. 639 of the Polish Civil Code. Consequently, costs may grow and the execution of construction projects may be delayed or even made impossible. This could have a negative impact on the Company's financial position.

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

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

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

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

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

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

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

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

- **Interest rate risk**

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

- **Risk related to weather conditions**

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

- **Risk related to greater employments costs**

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

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

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

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

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

Another factor with an impact on the seasonal nature of the industry is the fact that investment and

modernisation projects undertaken by customers on the construction market primarily take place in spring, summer and autumn.

19. Strategic objectives

The Group's strategic objectives include:

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

Section 5 of the Management Board's Report on the Group's activities contains a detailed description of the Group's strategic objectives.

Corporate information

20. Governing bodies

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

Management Board:

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

Supervisory Board:

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

21. Share capital structure

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

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

22. Treasury shares

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

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

23. Shareholding structure

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

Shareholder	At the date of 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.

24. Shares and powers held by members of the Company'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 publication of the last quarterly report; i.e. 29 April 2016
Wiesław Nowak	Management Board President	14,400,320	62.53	None
Marcin Wiśniewski	Management Board Vice-President	2,300	0.01	None
Jerzy Czeremuga	Management Board Vice-President	136	< 0.01	None
Maciej Nowak	Management Board Member	7,806	0.03	Purchase of 100 shares
Magdalena Lis	Supervisory Board Vice-Chairperson	7,565	0.03	Purchase of 20 shares
Michał Lis	Supervisory Board Member	661	< 0.01	None

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

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

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

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

26. Issue and redemption of debt and equity securities

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

27. Dividend

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

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

The abovementioned recommendations were approved of by the Company's Supervisory Board.

On 25 May 2016, the Ordinary General Meeting of ZUE resolved to allocate the net profit generated by the Company in 2015 according to the abovementioned recommendations.

The right to dividend for 2015 was determined as at 13 June 2016 and the payment date was set at 23 June 2016.

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

Financial information

28. Discussion of financial results

A detailed description of the financial results begins with Section 18 of the Management Board's Report on the Group's activities.

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

The Company did not publish any forecast 2016 financial results.

30. Trade and other receivables

	(PLN '000)	
	As at 30-06-2016	As at 31-12-2015
Trade receivables	74,091	72,225
Trade receivables write-downs	-14,031	-14,282
Receivables from the state budget other than corporate income tax	2	714
Receivables under contracts (measurement)	22,269	15,921
Advance payments	2,715	3,005
Other receivables	485	256
Total trade and other receivables	85,531	77,839

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

	(PLN '000)	
	As at 30-06-2016	
Counterparty A	27,441	
	27,441	

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

31. Trade and other payables

	(PLN '000)	
	As at 30-06-2016	As at 31-12-2015
Trade payables	34,018	43,424
Liabilities to the state budget other than corporate income tax	2,550	5,705
Accruals	59,392	53,296

Liabilities under contracts (measurement)	3,293	15,106
Other payables	141	199
Total trade and other payables	99,394	117,730

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

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

32. **Discontinued operations**

No operations were discontinued within the meaning of the IFRS 5 during the first half of 2016 or the first half of 2015.

33. **Investments in non-current assets**

By this report preparation date, the Group made a number of investments in non-current assets of the total value of PLN 5,999 thousand (out of which the investments of the total value of PLN 1,981 thousand were made in the first half of 2016).

The assets purchased by the Group include:

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

34. **Segment reporting**

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

- Construction;
- Design; and
- Sales.

These operating segments jointly meet the following criteria:

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

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

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

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

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

Operating segments' results for H1 2016:

(PLN '000)

	Construction	Sales	Design	Exclusions	Total
Revenue	111,902	35,707	4,311	-24,146	127,774
including:					
Revenue from external customers	111,487	12,347	3,889	50	127,774
Inter-segment revenues	415	23,360	421	-24,196	0
Gross profit	4,395	596	759	-203	5,547
Financial income / expenses	1,376	-254	-8	0	1,114
Interest received	948	0	1	0	949
Interest paid	-175	-88	-8	0	-271
Pre-tax profit	-700	-676	-41	-79	-1,497
Corporate income tax	-4	71	12	-16	63
Net profit	-696	-747	-53	-63	-1,560
Depreciation and amortisation	4,510	101	52	85	4,747
Property, plant and equipment	76,278	18	144	3,043	79,483
Non-current assets	140,699	384	1,275	-1,105	141,252
Total assets	365,424	21,908	6,712	-15,532	378,513

35. Transactions with related entities

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

	(PLN '000)			
	Receivables		Payables	
	As at		As at	
	30-06-2016	31-12-2015	30-06-2016	31-12-2015
RTI	0	1	0	0
RTI Germany	0	0	0	19
Wiesław Nowak	0	0	0	0
Total	0	1	0	19
	Revenue		Purchases	
	Period ended		Period ended	
	30-06-2016	30-06-2015	30-06-2016	30-06-2015
RTI	2	6	0	0
RTI Germany	0	0	113	403
Wiesław Nowak	0	0	0	0
Total	2	6	113	403
	Advanced loans		Financial income (interest on loans)	
	As at		Period ended	
	30-06-2016	31-12-2015	30-06-2016	30-06-2015
RTI	0	158	0	2
RTI Germany	13	0	0	0
Wiesław Nowak	0	0	0	0
Total	13	158	0	2
	Received loans		Financial expenses (interest on loans)	
	As at		Period ended	
	30-06-2016	31-12-2015	30-06-2016	30-06-2015
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	16
Total	0	0	0	16

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

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

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

On 31 May 2016, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 5.4 thousand to be repaid by 20 June 2017. The loan was advanced in instalments according

to the schedule. Three instalments in the total amount of EUR 2.9 thousand were paid by the end of the reporting period. The fourth instalment of EUR 2.5 thousand was paid on 1 August 2016.

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

36. Court proceedings

At the date of preparation of this report, the Group is a party to the pending court proceedings concerning the Group's claims and liabilities of the total value of PLN 36,281,897.20; 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 Żąbkowice - Jaworzno Szczakowa section."

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

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

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

The Petitioner could not agree with the Defendant because a risk of incorrect description of an order was borne by the Defendant and the correction of an obvious mistake could not change the order understood as the Defendant's statement of will. The decision to impose on the Petitioner the obligation to perform any works goes

beyond the risk included in the lump-sum remuneration. Therefore, the Petitioner demands the payment for the additional works commissioned by the Contract Engineer. In response, the Defendant filed a motion to dismiss the suit and questioned the Petitioner's obligation to carry out the tasks exclusively at 0.750 km. In addition, the Defendant stated there was no incorrect description of the order. According to the Defendant, each professional contractor acting with due care and diligence would be able to discover an obvious mistake of the Contracting Authority and take it into account while calculating the price.

37. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	As at 30-06-2016	As at 31-12-2015
Bonds	24,674	26,509
Bills of exchange	4,126	3,962
Guarantees	0	0
Mortgages	0	0
Total	28,800	30,471

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

Contingent liabilities

	(PLN '000)	
	As at 30-06-2016	As at 31-12-2015
Bonds	176,870	176,915
Guarantees	11,862	12,206
Bills of exchange	111,856	149,587
Mortgages	51,018	51,017
Pledges	5,500	19,207
Total	357,106	408,932

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

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

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

Approval of the abbreviated consolidated financial statements

These abbreviated consolidated financial statements for the six months ended 30 June 2016 were approved for publication by the Management Board of ZUE on 19 August 2016.

Statement by the Management Board of ZUE

Preparation of half-yearly abbreviated consolidated financial statements

On the basis of the Regulation of 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 Management Board of ZUE state that according to their best knowledge, these half-yearly abbreviated consolidated financial statements and the comparative information have been prepared in accordance with applicable accounting principles binding on the Group and give a true and fair view of the economic and financial position of the Group and its financial performance. The Management Board Report on the Group's 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.

Appointment of entity authorised to review half-yearly abbreviated consolidated financial statements

The Management Board of ZUE state that the entity responsible for the review of these half-yearly abbreviated consolidated financial statements has been appointed pursuant to applicable laws. The said entity and chartered auditors involved in the review have met the requirements necessary to make an unbiased and independent opinion on the reviewed half-yearly abbreviated consolidated financial statements in accordance with applicable laws and professional standards.

Publication of separate half-yearly abbreviated separate financial statements

Pursuant to § 83.3 of the Regulation of the Minister of Finance of 19 February 2009, ZUE do not publish any separate half-yearly separate report. The half-yearly abbreviated separate financial statements of ZUE and Auditor's Report on the review of the financial statements supplement the half-yearly consolidated report of the Group.

Wiesław Nowak – Management Board President

Jerzy Czeremuga – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-President

Anna Mroczek – Management Board Member

Maciej Nowak – Management Board Member

Cracow, 19 August 2016



**SEPARATE HALF-YEARLY REPORT
FOR 6 MONTHS ENDED 30 JUNE 2016
ZUE S.A.**

Cracow, 19 August 2016

III. SELECTED FINANCIAL DATA OF ZUE S.A.

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 30-06-2016	Exchange rate on 31-12-2015	Exchange rate on 30-06-2015
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.4255	4.2615	n/a
Items of statement of profit or loss and statement of cash flows	Arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month of the period	4.3805	4.1848	4.1341
"Cash at the beginning of the period" and "Cash at the end of the period" items in the statement of cash flows	Mid exchange rate prevailing at the end of the reporting period	4.4255	4.2615	4.1944

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

	As at 30-06-2016		As at 31-12-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	140,699	31,793	140,377	32,941
Current assets	224,725	50,780	267,827	62,848
Total assets	365,424	82,573	408,204	95,789
Equity	207,415	46,868	215,611	50,595
Non-current liabilities	25,236	5,702	27,695	6,499
Current liabilities	132,773	30,003	164,898	38,695
Total equity and liabilities	365,424	82,573	408,204	95,789

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

	6 months ended 30-06-2016		6 months ended 30-06-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	111,902	25,545	202,750	49,043
Cost of sales	107,507	24,542	185,770	44,936
Gross profit (loss) on sales	4,395	1,003	16,980	4,107
Profit (loss) on operating activities	-2,075	-474	8,553	2,069
Gross profit (loss)	-700	-160	5,590	1,352
Net profit (loss) on continuing operations	-696	-159	4,267	1,032
Total comprehensive income	-683	-156	4,394	1,063

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

	6 months ended 30-06-2016		6 months ended 30-06-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-40,114	-9,157	-42,740	-10,338
Cash flows from investing activities	-1,514	-346	-7,322	-1,771
Cash flows from financing activities	-10,758	-2,456	-4,926	-1,192
Total net cash flows	-52,386	-11,959	-54,988	-13,301
Cash at the beginning of the period	169,795	39,844	71,116	16,685
Cash at the end of the period	118,162	26,700	16,134	3,847

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

Separate statement of comprehensive income

(PLN '000)

	6 months ended 30-06-2016	6 months ended 30-06-2015
Continuing operations		
Revenue	111,902	202,750
Cost of sales	107,507	185,770
Gross profit (loss) on sales	4,395	16,980
General and administrative expenses	8,766	8,893
Other operating income	2,855	3,711
Other operating expenses	559	3,245
Profit (loss) on operating activities	-2,075	8,553
Financial income	1,858	442
Financial expenses	483	3,405
Pre-tax profit (loss)	-700	5,590
Corporate income tax	-4	1,323
Net profit (loss) from continuing operations	-696	4,267
Net profit (loss)	-696	4,267
Other net comprehensive income		
Items that will not be reclassified subsequently to profit or loss:	13	127
Remeasurement of liabilities under employee benefits	13	127
Other total net comprehensive income	13	127
Total comprehensive income	-683	4,394
Weighted average number of shares	23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)	-0.03	0.19
Total comprehensive income (loss) per share (PLN)	-0.03	0.19

Separate statement of financial position

	(PLN '000)	
	As at 30-06-2016	As at 31-12-2015
ASSETS		
Non-current assets		
Property, plant and equipment	76,278	77,985
Investment property	7,581	7,822
Intangible assets	9,338	9,638
Goodwill	31,172	31,172
Investments in subordinates	328	239
Advance payments for investments in subordinates	0	0
Long-term receivables	0	0
Retentions on construction contracts	6,678	5,288
Deferred tax assets	9,324	8,233
Other assets	0	0
Total non-current assets	140,699	140,377
Current assets		
Inventories	21,054	18,368
Trade and other receivables	81,099	73,889
Retentions on construction contracts	1,367	602
Current tax assets	2,187	3,954
Other financial receivables	0	0
Other assets	843	1,061
Loans advanced	13	158
Cash and cash equivalents	118,162	169,795
Total current assets	224,725	267,827
Total assets	365,424	408,204

	As at 30-06-2016	As at 31-12-2015
EQUITY AND LIABILITIES		
Equity		
Share capital	5,758	5,758
Share premium account	93,837	93,837
Treasury shares	-2,690	-2,690
Retained earnings	110,510	118,706
Total equity	207,415	215,611
Non-current liabilities		
Long-term bank borrowings and other debt instruments and other financing sources	8,163	11,155
Retentions on construction contracts	7,865	7,991
Other financial liabilities	0	0
Liabilities under employee benefits	701	697
Deferred tax liabilities	0	0
Long-term provisions	7,737	6,942
Deferred revenue	0	0
Other liabilities	770	910
Total non-current liabilities	25,236	27,695
Current liabilities		
Trade and other payables	95,059	112,381
Retentions on construction contracts	7,533	11,668
Short-term bank borrowings and other debt instruments and other financing sources	6,131	6,111
Other financial liabilities	37	37
Liabilities under employee benefits	16,096	21,947
Current tax liabilities	0	0
Short-term provisions	7,917	12,754
Total current liabilities	132,773	164,898
Total liabilities	158,009	192,593
Total equity and liabilities	365,424	408,204

Separate statement of changes in equity

(PLN '000)

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	1 Jan 2016	5,758	93,837	-2,690	118,706	215,611
Dividend		0	0	0	-7,513	-7,513
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Repurchase of shares		0	0	0	0	0
Profit (loss) for the year		0	0	0	-696	-696
Other net comprehensive income		0	0	0	13	13
Balance at	30 Jun 2016	5,758	93,837	-2,690	110,510	207,415

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	1 Jan 2015	5,758	93,837	0	103,369	202,964
Dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Repurchase of shares		0	0	-2,642	0	-2,642
Profit (loss) for the year		0	0	0	4,267	4,267
Other net comprehensive income		0	0	0	127	127
Balance at	30 Jun 2015	5,758	93,837	-2,642	107,763	204,716

Separate statement of cash flows

	(PLN '000)	
	6 months ended 30-06-2016	6 months ended 30-06-2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-700	5,590
Adjustments for:		
Depreciation and amortisation	4,510	4,344
Foreign exchange gains / (losses)	-753	-6
Interest and share in profit (dividends)	-645	2,764
(Gain) / loss on disposal of investments	17	120
Accrued expenses under commission on loans	0	104
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit before changes in working capital	2,429	12,916
Change in receivables and retentions on construction contracts	-9,402	-32,998
Change in inventories	-2,687	-19,983
Change in provisions and liabilities under employee benefits	-9,889	7,233
Change in retentions on construction contracts and liabilities, excluding borrowings, other debt instruments and other financing sources	-21,460	-12,791
Change in accrued expenses	218	642
Change in funds of limited availability	0	0
Other adjustments	0	240
Income tax paid / (refunded)	677	2,001
NET CASH FROM OPERATING ACTIVITIES	-40,114	-42,740
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	111	407
Purchase of property, plant and equipment and intangible assets	-2,634	-3,538
Investments in real property and intangible assets	0	0
Sale / (purchase) of financial assets in other entities	0	3
Sale / (purchase) of financial assets in subsidiaries	0	-210
Purchase of financial assets available for sale	0	-2,642
Loans advanced	-13	-1,725
Repayment of loans advanced	74	0
Dividends received	0	0
Interest received	948	383
Settlement of financial instruments – expenses	0	0
Other cash provided by / (used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	-1,514	-7,322
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings and other debt instruments received	0	0
Repayment of borrowings and other debt instruments	0	-2,556
Decrease in finance lease liabilities	-3,070	-2,135
Interest paid	-175	-233
Other cash provided by / (used in) financing activities – dividends	-7,513	-2

Net cash provided by issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	-10,758	-4,926
TOTAL NET CASH FLOWS	-52,386	-54,988
Net foreign exchange gains / (losses)	753	6
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	169,795	71,116
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	118,162	16,134

Notes to Separate Financial Statements of ZUE S.A.

1. General information

Details of the Company

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

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

Management Board:

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

Supervisory Board:

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

Functional and reporting currency

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

2. *Use of International Financial Reporting*

Statement of compliance

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

The separate financial statements for the first six months of 2016 have been prepared according to the requirements binding on public companies.

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

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

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

The abovementioned amendments to existing standards or interpretations did not have any material influence on the Company's financial results for 2016.

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

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

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

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

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided not to approve this standard for use in the EU until the final version of the IFRS 14 is issued;

- **IFRS 15 "Revenue from Contracts with Customers"** and subsequent amendments (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 2 "Share-based payment"** – Classification and Measurement of Share-based Payment transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 10 "Consolidated Financial Statements," IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and subsequent amendments (effective date was postponed until the completion of research on equity method);
- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

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

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

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

3. Important accounting principles

Going concern

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

Preparation basis

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

Comparability of financial information

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

Applied accounting principles

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

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

4. Revisions to estimates

The preparation of financial statements in conformity with the IFRS requires the Management Board to make judgments, estimates and assumptions that affect the adopted policies and reported assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed

on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods if the revision affects both current and future periods.

Change in provisions

(PLN '000)

Provisions	01-01-2016	Created	Used	Released	Reclassified	30-06-2016
Long-term provisions:	7,639	378	28	414	-863	8,438
Provisions for employee benefits	697	4	0	0	0	701
Provisions for warranty claims	6,942	374	28	414	-863	7,737
Other provisions	0	0	0	0	0	0
Short-term provisions:	29,131	8,521	9,857	8,013	863	18,919
Provisions for employee benefits	16,377	5,621	9,664	1,332	0	11,002
Provisions for warranty claims	9,191	41	193	4,141	863	4,035
Provision for loss on contracts	1,996	2,859	0	1,040	0	3,815
Other provisions	1,567	0	0	1,500	0	67
Total:	36,770	8,899	9,885	8,427	0	27,357

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Company. The amount of the provision depends on the amount of revenues taking account of the liability of subcontractors for the works they have been entrusted with. During the contract performance, provisions for warranty claims are recognised in costs of sales on the basis on the proportion of costs incurred. The amount of provisions may decrease or increase on the basis of inspections of construction works carried out in subsequent years of warranty.

Provisions for employee benefits include the provisions for leaves, bonuses and overtime work. Apart from provisions for employee benefits, short-term liabilities under employee benefits include liabilities relating to salaries and social security premiums.

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

Deferred tax assets and liabilities

(PLN '000)

	01-01-2016	Created	Used	30-06-2016
Deferred tax assets	20,798	2,132	0	22,930
Deferred tax liability	12,565	1,041	0	13,606
Balance of assets and liabilities	8,233			9,324

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

5. Trade and other receivables

	(PLN '000)	
	As at	As at
	30-06-2016	31-12-2015
Trade receivables	71,443	71,000
Trade receivables write-downs	-13,698	-14,167
Receivables from the state budget other than corporate income tax	2	2
Receivables under contracts (measurement)	20,174	13,825
Advance payments	2,695	2,973
Other receivables	483	256
Total trade and other receivables	81,099	73,889

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

	(PLN '000)	
	As at	
	30-06-2016	
Counterparty A	27,441	
	27,441	

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

6. Trade and other payables

	(PLN '000)	
	As at	As at
	30-06-2016	31-12-2015
Trade payables	31,482	39,251
Liabilities to the state budget other than corporate income tax	1,912	5,447
Accruals	58,544	52,358
Liabilities under contracts (measurement)	3,012	14,346
Other payables	109	979
Total trade and other payables	95,059	112,381

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

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

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

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

8. Discontinued operations

No operations were discontinued within the meaning of the IFRS 5 during the first half of 2016 or the first half of 2015.

9. Issue and redemption of debt and equity securities

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

10. Dividend

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

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

The abovementioned recommendations were approved of by the Company's Supervisory Board.

On 25 May 2016, the Ordinary General Meeting of ZUE resolved to allocate the net profit for 2015 according to the abovementioned recommendations.

The right to dividend for 2015 was determined as at 13 June 2016 and the payment date was set at 23 June 2016.

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

11. Investments in non-current assets

By this report preparation date, the Company made a number of investments in non-current assets of the total value of PLN 5,892 thousand (out of which the investments of the total value of PLN 1,949 thousand were made in the first half of 2016).

The assets purchased by the Company include:

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

12. Segment reporting

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

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

13. Transactions with related entities

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

(PLN '000)

	Receivables		Payables	
	As at		As at	
	30-06-2016	31-12-2015	30-06-2016	31-12-2015
Railway GFT	1,699	4,435	11,981	40
BPK Poznań	8	9	1,174	2,253
RTI	0	1	0	0
RTI Germany	0	0	0	19
Wiesław Nowak	0	0	0	0
Total	1,707	4,445	13,155	2,312

	Revenue		Purchases	
	Period ended		Period ended	
	30-06-2016	30-06-2015	30-06-2016	30-06-2015
Railway GFT	294	14,409	23,434	2,985
BPK Poznań	335	118	425	597
RTI	2	6	0	0
RTI Germany	0	0	113	403
Wiesław Nowak	0	0	0	0
Total	631	14,533	23,972	3,985

	Advanced loans		Financial income (interest on loans)	
	As at		As at	
	30-06-2016	31-12-2015	30-06-2016	30-06-2015
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	33
RTI	0	158	0	2
RTI Germany	13	0	0	0
Wiesław Nowak	0	0	0	0
Total	13	158	0	35

	Received loans		Financial expenses (interest on loans)	
	As at		As at	
	30-06-2016	31-12-2015	30-06-2016	30-06-2015
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	0
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

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

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

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

- Purchase of materials used in connection with the construction and repairs of tracks;
- Design services;
- Market research services;
- Printing services;
- Equipment services;
- Transport services; and
- Logistic services.

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

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

On 31 May 2016, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 5.4 thousand to be repaid by 20 June 2017. The loan was advanced in instalments according to the schedule. Three instalments in the total amount of EUR 2.9 thousand were paid by the end of the reporting period. The fourth instalment of EUR 2.5 thousand was paid on 1 August 2016.

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

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

14. Court proceedings

At the date of preparation of this report, the Company is a party to the pending court proceedings concerning the Company's claims and liabilities of the total value of PLN 35,614,302.27; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 2,400,474.66 and the total value of the proceedings concerning claims is PLN 33,213,827.61.

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

15. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	As at 30-06-2016	As at 31-12-2015
Bonds	24,674	26,509
Bills of exchange	4,437	4,266
Guarantees	0	0
Mortgages	0	0
Total	29,111	30,775

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

Contingent liabilities

	(PLN '000)	
	As at 30-06-2016	As at 31-12-2015
Bonds	170,031	171,290
Guarantees	11,862	12,206
Bills of exchange	110,066	148,297
Mortgages	51,018	51,018
Pledges	0	13,706
Total	342,977	396,517

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

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

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

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

Approval of the abbreviated separate financial statements

These abbreviated separate financial statements for the six months ended 30 June 2016 were approved for publication by the Management Board of ZUE on 19 August 2016.

Statement by the Management Board of ZUE

Preparation of half-yearly abbreviated separate financial statements

On the basis of the Regulation of 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 Management Board of ZUE state that according to their best knowledge, these half-yearly abbreviated separate financial statements and the comparative information have been prepared in accordance with applicable accounting principles binding on the Company and give a true and fair view of the economic and financial position of the Company and its financial performance.

Appointment of entity authorised to review half-yearly abbreviated separate financial statements

The Management Board of ZUE state that the entity responsible for the review of these half-yearly abbreviated separate financial statements has been appointed pursuant to applicable laws. The said entity and chartered auditors involved in the review have met the requirements necessary to make an unbiased and independent opinion on the reviewed half-yearly abbreviated separate financial statements in accordance with applicable laws and professional standards.

Publication of separate half-yearly abbreviated separate financial statements

Pursuant to § 83.3 of the Regulation of the Minister of Finance of 19 February 2009, ZUE do not publish any separate half-yearly separate report. The half-yearly abbreviated separate financial statements of ZUE and Auditor's Report on the review of the financial statements supplement the half-yearly consolidated report of the Group.

Wiesław Nowak – Management Board President

Jerzy Czeremuga – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-President

Anna Mroczek – Management Board Member

Maciej Nowak – Management Board Member

Cracow, 19 August 2016

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

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

Wiesław Nowak – Management Board President

Jerzy Czeremuga – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-
President

Anna Mroczek – Management Board Member

Maciej Nowak – Management Board Member

Cracow, 19 August 2016