



REPORT ON ACTIVITIES OF ZUE S.A.

between 1 January 2015 and 31 December 2015

Cracow, 10 March 2016

Contents

OPERATIONAL INFORMATION	5
1. <i>Basic information about ZUE S.A.</i>	5
2. <i>Organisational links</i>	5
2.1. <i>Structure of the Group</i>	5
2.2. <i>Changes in the Group's structure and their consequences</i>	6
3. <i>Sales markets</i>	8
4. <i>Reliance on clients</i>	9
5. <i>Supply sources</i>	10
6. <i>Portfolio of orders</i>	11
7. <i>Strategic objectives of ZUE</i>	12
8. <i>Market development prospects</i>	12
<i>Urban infrastructure market</i>	12
<i>Rail infrastructure market</i>	13
<i>Power infrastructure market</i>	15
9. <i>Factors believed by the Issuer to have an influence on the Company's development</i>	15
10. <i>Fundamental risks and threats</i>	16
11. <i>Major contracts</i>	18
12. <i>Major events</i>	21
13. <i>Major events after the reporting period</i>	23
14. <i>Transactions with related entities</i>	24
15. <i>Bonds and guarantees</i>	25
FINANCIAL INFORMATION	26
16. <i>Discussion of major items of the statement of profit or loss</i>	26
17. <i>Discussion of major items of the statements of financial position</i>	27
18. <i>Discussion of items of the statement of cash flows</i>	29
19. <i>Analysis of ratios</i>	29
19.1. <i>Debt ratios</i>	29
19.2. <i>Liquidity ratios</i>	29
19.3. <i>Profitability ratios</i>	30
20. <i>Unusual factors and events with significant influence on the Company's results</i>	30
21. <i>Statement by the Management Board of ZUE on forecast financial results</i>	31
22. <i>Investments</i>	31
22.1. <i>Investments made in 2015</i>	31
22.2. <i>Assessment of intended investments</i>	32
23. <i>Management of financial resources</i>	32
24. <i>Financial risk management</i>	33
STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RULES	34
25. <i>Scope of application of corporate governance rules</i>	34
26. <i>Key characteristics of ZUE's risk management internal audit systems relating to the preparation of financial statements</i>	37
27. <i>Assessment of internal audit and risk management systems as well as supervision of the compliance of activities with the law</i>	38
28. <i>Shares and shareholding structure</i>	38
28.1. <i>Share capital structure</i>	38
28.2. <i>Treasury shares</i>	38
28.3. <i>Shareholding structure</i>	40
28.4. <i>Shares of ZUE and related entities held by members of the Issuer's management and supervisory bodies</i> ..	40

28.5. Holders of securities conferring special control powers	41
28.6. Restrictions on exercise of voting rights.....	41
28.7. Restrictions on transferability of securities	41
29. Information about agreements known to the Issuer likely to cause changes to the proportions of shares held by the existing shareholders	41
30. Issue of securities	41
GOVERNING BODIES.....	42
31. Composition and rules governing the operation of the Company's managing and supervisory bodies and their committees.....	42
31.1. Management Board of ZUE	42
31.2. Agreements between the Issuer and the Board members providing for compensation for resignation or dismissal	43
31.3. Supervisory Board of ZUE	43
32. Rules governing appointment and removal from office of managing persons and the managing persons' powers, including authority to decide on share issues or buybacks.....	45
33. Audit Committee	45
34. Amendments to ZUE's Articles of Association	45
35. Operation of the General Meeting of ZUE.....	46
36. Changes in basic rules of management of the Issuer's enterprise and its Capital Group	48
OTHER INFORMATION ABOUT ZUE S.A.	48
37. Human resource management	48
38. Occupational health and safety management.....	49
39. Quality System Management	49
40. Employee share scheme control system.....	50
41. Preparation basis	50
42. Major research and development projects	51
43. Appointment of entity authorised to audit financial statements	51
44. Court proceedings.....	51
45. Other information significant for the assessment of the Issuer's position	51
STATEMENTS BY THE MANAGEMENT BOARD OF ZUE S.A.	52
46. Statement on compliance	52
47. Statement on appointment of auditor	52

Abbreviations and definitions:

ZUE, Company, Issuer	<p>ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,757,520.75 paid up in full.</p> <p>Parent company of the ZUE Capital Group.</p>
BIUP	<p>Biuro Inżynierskich Usług Projektowych Sp. z o.o. with registered office in Cracow, entered into the National Court Register under entry number KRS 0000332405.</p> <p>On 29 May 2015, BIUP acquired BPK Poznań and changed its name to BPK Poznań. For the purposes of this report, the company has been described under the name BPK Poznań (after merger).</p>
RTI	<p>Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 50,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI Germany	<p>Railway Technology International Germany GmbH with registered office in Hamburg, Germany, entered into the German Register of Entrepreneurs (<i>Handelsregister B, HRB</i>) maintained by the District Court in Hamburg (<i>Amtsgericht Hamburg</i>) under entry number HRB 125764. Share capital of EUR 25,000 paid up in full.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
BPK Poznań	<p>Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, under entry number KRS 0000160302, share capital of PLN 2,170,000 paid up in full.</p> <p>Former subsidiary of BIUP.</p> <p>On 29 May 2015, BIUP acquired BPK Poznań.</p>
BPK Gdańsk	<p>Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. w likwidacji with registered office in Gdańsk, entered into the National Court Register maintained by the District Court Gdańsk-Północ, VII Commercial Division of the National Court Register, under entry no. KRS 0000273363, share capital of PLN 1,000,000 paid up in full.</p> <p>Former associate of ZUE. Validly deleted from the National Court Register on 30 May 2015.</p>
Railway gft	<p>Railway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full.</p>
BPK Poznań (after merger)	<p>Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań (former BIUP), entered into the National Court Register maintained by the District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 5,866,600 paid up in full.</p> <p>Subsidiary of ZUE.</p>
ZUE Group, Group, Capital Group	<p>ZUE Capital Group including ZUE, BPK Poznań (after merger), Railway gft, RTI and RTI Germany.</p>

PLN Polish zloty.

EUR Euro.

Act Polish Companies Act (Journal of Laws 2000, no. 94, item 1037, as amended).

Share capital details as at 31 December 2015.

OPERATIONAL INFORMATION

1. Basic information about ZUE S.A.

ZUE S.A. is the parent company of the Capital Group. The Company has been incorporated on 1 June 1991 and operated in its current legal form since 20 May 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. The share capital of PLN 5,757,520.75 has been paid up in full.

ZUE is a major player in the urban and railway transport infrastructure sector.

ZUE focuses on the execution, as a general contractor or consortium leader or subcontractor, of multi-discipline projects including:

- **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.

For reporting purposes, ZUE uses a uniform accounting policy for all areas of its activity and identifies one aggregate segment: construction and assembly engineering services.

2. Organisational links

2.1. Structure of the Group

ZUE holds shares in the following companies:

Subsidiary – Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. (after merger) 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.

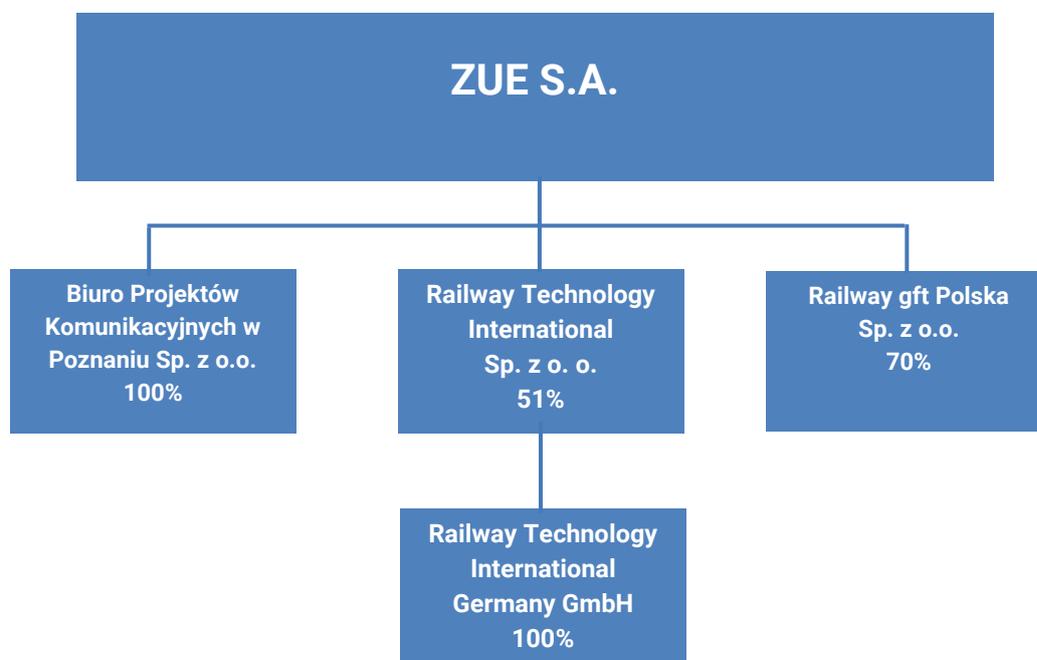
Subsidiary – Railway Technology International Sp. z o.o. has been established under the deed of 20 July 2011 in the Notary's Office in Warsaw, al. Jerozolimskie 29/26 (Rep. A no. 2582/2011). Cracow is the company's registered office. The company has been entered into the National Court Register maintained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

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 of the National Court Register, under entry no. KRS 0000532311.

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

Structure of the Group at 31 December 2015 and on the date of the approval of this report.



The companies whose results were consolidated with a full method in 2015 include:

- Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. (after merger);
- Railway gft Polska Sp. z o.o.

ZUE holds a 51% interest in Railway Technology International Sp. z o.o. and the company holds a 100% interest in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiaries' financial data on the Group's economic and financial condition, the companies were not consolidated as at 31 December 2015.

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

Deletion of BPK Gdańsk from the National Court Register

At 1 January 2015, the Capital Group included Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. w likwidacji BPK Poznań. The Issuer held 49% of shares in the company through BPK Poznań and, consequently, the company was an associate.

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

Merger of BIUP and BPK Poznań

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

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

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

On 29 May 2015, the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, issued the decision concerning the merger of BPK Poznań and BIUP. The decision became final and binding on 30 June 2015.

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

On 28 September 2015, the Extraordinary Shareholders Meeting of BPK Poznań (after merger) resolved to increase the share capital of BPK Poznań (after merger) from PLN 2,017,850 to PLN 5,866,600 through the creation of 76,975 new shares with a par value of PLN 50 each. All the new shares were paid up by ZUE with cash of PLN 3,848,750 through the set-off of ZUE's claims under loans granted and services provided to BPK Poznań (after merger).

Acquisition of Railway gft

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

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

- a) The Company received an unconditional consent of the President of the OCCP to the concentration; or

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

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

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

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

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

3. Sales markets

In the reporting period, ZUE continued its construction activities.

Urban infrastructure services were mainly sold to city companies, which provide public transport services. Major clients in the reporting period included:

- Gmina Miasto Szczecin [*the City of Szczecin*] represented by Tramwaje Szczecińskie Sp. z o.o. – “Design and construction services consisting of the reconstruction of the *Pogodno* tram depot in Szczecin provided as part of the following project: Construction and reconstruction of tracks in Szczecin co-funded by the European Union.” The project was executed by ZUE as the General Contractor.
- Tramwaje Warszawskie Sp. z o.o. – “Reconstruction (upgrade) of the tram route on the Dworzec Wileński – Żerań Wschodni section.” The project was executed by ZUE as the General Contractor.
- Tramwaje Śląskie S.A. – “Upgrade of the tramway track along the Gliwicka Street from the *Lisa* tram stop to the borders of Katowice and Chorzów. Reconstruction of traction network (project no. 11a), Upgrade of the tramway track in the tram crossing in the Bracka Street in Katowice.” The project was executed by ZUE as the General Contractor.
- Gmina Miejska Kraków [*the City of Cracow*] represented by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie – “Extension of a tramway under the KST project Stage II B including the road system (the Lipska Street – the Wielicka Street) in Cracow.” The project was executed by ZUE as the subcontractor of MOTA-ENGIL Central Europe S.A.

As for railway projects, ZUE provides services both directly to PKP Polskie Linie Kolejowe S.A. and as a subcontractor or consortium member of other entities, which provide services directly to PKP PLK.

In 2015, major railway contracts performed by the Company directly for PKP Polskie Linie Kolejowe S.A. included:

- Design and construction services for the following project: “Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie – Dąbrowa Górnicza Ząbkowice – Jaworzno Szczakowo section.”

- Upgrade of the railway line no. 137 on the Katowice – Chorzów Batory section as part of the following project: “Upgrade of the railway lines no. 134, 137 and 138 on the Gliwice Łabędy - Katowice - Sosnowiec Jęzor section.”
- Upgrade of the railway line no. 273 on the Głogów - Zielona Góra - Rzepin - Dolna Odra section. Reconstruction of tracks, platforms and viaduct in the Zielona Góra station.
- Design and construction services in connection with the following project: “Upgrade of the railroad surface with auxiliary works, Smolec junction signal box, track no. 1, the Smolec – Kąty Wrocławskie route, track no. 1, the Kąty Wrocławskie – Mietków route and track no. 3 in the Boguszów Gorce Zachód station,” – re-electrification of the Smolec – Kąty Wrocławskie route, track no. 1 as part of the following project: “Upgrade of Wrocław – Zgorzelec railway line no. 274 on the Wrocław-Jelenia Góra section.”

In 2015, major railway contracts performed by the Company as a subcontractor or consortium member included:

- Design and completion of construction works on the Cracow – Medyka – state border railway line, Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: “Modernisation of E 30/C-E 30 railway line, Cracow – Rzeszów section, stage III.”
- Design and upgrade of the Warsaw – Łódź railway line, stage II, the Warszawa Zachodnia – Skierniewice section, as part of the following project: “Upgrade of the Warsaw – Łódź railway line, stage II, Lot A – the Warszawa Zachodnia – Miedniewice (Skierniewice) – Construction works on the section named V Grodzisk Mazowiecki station (track, drainage and platform works).”
- Design and completion of construction works as part of the following project: “Upgrade of the line no. 20 in the PKP Warszawa Gdańska station in connection with line E65 and Dworzec Gdański A17 subway station, stage II” as part of the following project: “Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section).”
- 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 Company pursued its strategy and expanded its operations to include foreign markets. In the reporting period, the Company completed the urban infrastructure project named “Construction of IKD Košice, Maratónu Mieru Square – Station Yard” (Stavby IKD Košice, Námestie Maratónu Mieru – staničné námestie) in Slovakia. The share of foreign sales in Company’s revenue in 2015 exceeded 10%.

4. Reliance on clients

In 2015, ZUE operated on the urban infrastructure market as standalone contractor, consortium leader or partner and, for certain projects, as subcontractor. As a service provider, ZUE did not depend on a single client but cooperated with the authorities managing tram infrastructure in all major cities. The structure of ZUE’s client base in the period under analysis reflected the nature of services sold by the Company under contracts awarded on a one-off basis through tenders and/or by way of trade negotiations.

The Company operated on the rail infrastructure market as standalone contractor, consortium member or subcontractor. In 2015, the Company’s rail infrastructure repair and construction services were mainly provided to PKP Polskie Linie Kolejowe S.A. Investment Centre. ZUE is not formally linked to any client whose share of the sales is at least 10%.

Client	Service	% of 2015 revenue
PKP Polskie Linie Kolejowe S.A.	Rail infrastructure construction services	23
Tramwaje Szczecińskie Sp. z o.o.*	Urban infrastructure construction services	14
Other	Urban and rail infrastructure construction services	63

**In 2015, Tramwaje Szczecińskie Sp. z o.o. had a 14% share in the Group's revenue as a result of the Group's performance of the design and construction contract relating to the reconstruction of the Pogodno tram depot in Szczecin. The contract was completed in 2015.*

5. Supply sources

ZUE cooperates with the Polish providers of construction services, goods and materials and complements its offer with materials supplied by the EU suppliers. The Company cooperates with the suppliers according to the rules of market competition depending on its actual needs. According to the Issuer, there are no grounds to become dependent on any supplier.

The table below sets out the Company's major suppliers in 2015 as at 31 December 2015 (except for the Group companies) according to the value of transactions. One supplier had more than a 10% share of 2015 purchases. ZUE is not formally linked to any of the following companies.

Supplier	Type of purchase	% share in 2015
THYSSENKRUPP GFT Polska Sp. z o.o.	Materials and services	10.4%
Counterparty 2	Construction services	5.4%
Counterparty 3	Construction services	5.2%
Counterparty 4	Construction services	4.6%
Counterparty 5	Construction services	2.3%
Counterparty 6	Materials and services	2.0%
Other	Design and construction services, supply of materials	70.0%

6. Portfolio of orders

At this report preparation date, the net value of the Company's portfolio of orders for construction and assembly services was PLN 597m and provided it with an ability to provide the services in the period 2016-2019.

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

- Construction of the double track 400 kV Kożienice – Ołtarzew. Net value attributable to ZUE is PLN 469,000 thousand;
- Reconstruction (upgrade) of the tram route on the Dworzec Wileński – Żerań Wschodni section. Net value attributable to ZUE is PLN 52,969 thousand;
- Maintenance and repair of tram infrastructure in Cracow in the period 2015 – 2018. Net value attributable to ZUE is PLN 42,345 thousand;
- Design and completion of construction works on the Cracow – Medyka – state border railway line, Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: “Modernisation of E 30/C-E 30 railway line, Cracow – Rzeszów section, stage III.” Net value attributable to ZUE is PLN 135,564 thousand;
- Modernisation of E 30 Cracow Medyka railway line, Biadoliny – Tarnów section. Net value attributable to ZUE is PLN 45,322 thousand;
- Upgrade of the track no. 2 of the railway line no. 131 on the Tarnowskie Góry – Kalety section, reconstruction of the Baronów station and the reconstruction of 18 crossovers at the Tarnowskie Góry station, as part of the following project: “Upgrade of the Chorzów Batory - Tczew railway line no. 131, the Bydgoszcz Główna - Zduńska Wola - Chorzów Batory section.” Net value attributable to ZUE is PLN 38,416 thousand;
- Upgrade of the railway line no. 273 on the Głogów - Zielona Góra - Rzepin - Dolna Odra section. Reconstruction of tracks, platforms and viaduct in the Zielona Góra station. Net value attributable to ZUE is PLN 19,583 thousand;
- Design and completion of construction works on the Cracow – Medyka – state border railway line, Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: “Modernisation of E 30/C-E 30 railway line, Cracow – Rzeszów section, stage III” Tender 1.3, No. IRZRG-216-04/10 POLiŚ 7.1-30-1.3 Reconstruction of the Tarnów - Mościce station (72.8-74.6 km). Net value attributable to ZUE is PLN 21,882 thousand;
- Design and completion of construction works as part of the following project: “Upgrade of the line no. 20 in the PKP Warszawa Gdańska station in connection with line E65 and Dworzec Gdański A17 subway station, stage II” as part of the following project: “Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section).” Net value attributable to ZUE is PLN 17,741 thousand;
- Conversion of a jointed track into a continuous welded track, tracks no. 1 and 2 from 105,000 km to 124,000 km on the 014 Łódź Kaliska – Tulipce line. Net value attributable to ZUE is PLN 10,000 thousand;
- Strengthening of the substructure on the line no. 139 Katowice – Zwardoń, tracks no. 1 and 2, section from 10,300 km to 25,360 km in the selected locations, and on the line no. 93 Trzebinia – Zebrzydowice, section from 62,260 km to 68,780 km in the selected locations, plus the accompanying works and services provided in connection with Substructure Repair Train with the use of AHM-800R formation rehabilitation machine, RM80 ballast cleaning machine and 20 hopper cars of type 426 Vb, representing the potential of the Contracting Authority - Zakład Maszyn Torowych w Krakowie. Net value attributable to ZUE is PLN 25,595 thousand.

A smaller number of construction and design contracts performed on the infrastructure market is a result of the final settlements of the contracts performed under the previous EU perspective and waiting for the new contracts financed from the EU perspective for the years 2014-2020. The outcomes of tenders announced by PKP in 2015 were repeatedly postponed as a result of which the demand for the services was temporarily reduced and the value of the portfolio of orders held by construction companies decreased. Nonetheless, since the tender procedures have started, the Company's development prospects in 2016 are positively judged by the Company's Management Board. The Company participates in tenders both in Poland and abroad. ZUE is interested in winning contracts on the EU markets.

7. Strategic objectives of ZUE

ZUE's strategic objectives include:

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

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

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

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

8. Market development prospects

The infrastructure construction industry is waiting for the outcome of tenders financed from the EU perspective for the years 2014–2020. Poland will receive approx. EUR 82.5bn under the EU's Cohesion Policy. The projects carried out under the new perspective will include both regional and national undertakings.

Urban infrastructure market

In the new EU perspective for the years 2014-2020, which provides for the EU funding of up to 85%, the tram and trolleybus infrastructure will be the preferred direction in the field of the transport system development in the cities with tram and trolleybus lines, which is to account for approx. PLN 13bn of the local governments' spending on development. The plans of the Polish cities provide for the construction of more than 100 km of new and upgrading of 200 km of the existing tram lines. The estimated total expenditure on tram infrastructure may be up to PLN 8.5bn.

Selected plans of Polish cities with respect to construction and upgrade of tramways for the years 2014-2020¹

- Warsaw is planning to construct approx. 20 km of tramway;
- Cracow is planning to construct approx. 8 km and upgrade approx. 8 km of tramway;
- Gdańsk is planning to construct approx. 14 km and upgrade approx. 17 km of tramway;
- Toruń is planning to construct approx. 10 km and upgrade approx. 9 km of tramway;
- Silesian cities are planning to construct approx. 28 km and upgrade approx. 80 km of tramway;
- Łódź is planning to construct approx. 6 km of tramway;
- Olsztyn is planning to construct approx. 10 km of tramway;
- Gorzów Wielkopolski is planning to construct approx. 3 km and upgrade approx. 10 km of tramway including depot.

¹ mCorporate Finance S.A.

Rail infrastructure market

In September 2015, the government adopted the National Railway Programme (“NRP”) providing for projects worth a total of PLN 67bn by 2013. This long-term programme is designed to implement the strategies adopted by the Council of Ministers, including “National Development Strategy 2020” and “Transport Development Strategy until 2020 with the perspective until 2030.” The National Railway Programme ensures funding and effective project management, with considerable use of the European Union funds. The National Railway Programme aims to implement more than 260 railway projects, divided into primary and secondary tasks, by 2023.

The key objective of the NRP is to strengthen the role of rail transport in the national integrated transport system through development of a coherent and modern railway network. At present, an average speed of freight trains in Poland is approximately 23 km/h. In contrast, the average figure for the total EU is approximately 50 km/h, with more than 60 km/h for Germany and France. Compared to the developed EU member states, the Poland’s rail infrastructure calls for substantial capital expenditures.

The NRP includes plans to upgrade 8,500 km of railway lines.

NRP’s specific objectives:²

- a) Strengthening of the rail transport efficiency by shortening transit times and increasing the rail network capacity:
 - 350 km – length of railway lines with speeds above 160 km/h,
- b) Improvement of the passenger and freight transport quality by increasing the number of provincial capitals connected by the upgraded lines and the speed of freight trains:
 - 40 km/h – average speed of freight trains,
 - Ensuring access for all provincial capitals to rail lines with the speed of 100 km/h,
- c) Improvement of rail transport safety by extending the length of railway lines fitted with ERTMS/ETCS, increasing the number of two-level crossings and reducing the number of accidents at level crossings:
 - 2 000 km – length of railway lines fitted with ETMS/ETCS.

The NRP provides also for projects to improve the rail transport in large urban areas. The expenditures on railway infrastructure in large urban areas will allow strengthening the alternative to road transport and building integrated transport hubs and new stations. The integration of urban and railway transport will facilitate commuting to work and school as well as improve the attractiveness of the urban public transport.

Major projects planned in urban areas:³

- Warsaw is planning to reconstruct the cross-city line and upgrade the ring rail line. The plans provide for conversion of three railway stations and construction of two new stations;
- Cracow is planning to reconstruct approx. 20 km of railway lines on the Kraków Główny Towarowy – Rudzice section, conversion of four stations and construction of two new ones. Furthermore, bridges over the Vistula River are to be built, and the overhead contact system, railway switchgear and traffic control devices are to be replaced. Additional tracks in the busiest sections within the city and a siding on the Zabłocie Kraków – Kraków Krzemionki section will be built;
- Wrocław is planning to build new stations within the urban area and upgrade the railway line from Wrocław to Głogów;
- Łódź intends to build a tunnel to direct rail traffic from the modernized Łódź Fabryczna Station north and south of the city. The tunnel is expected to incorporate the railway stations in the city centre and further stations;

² National Railway Programme until 2023.

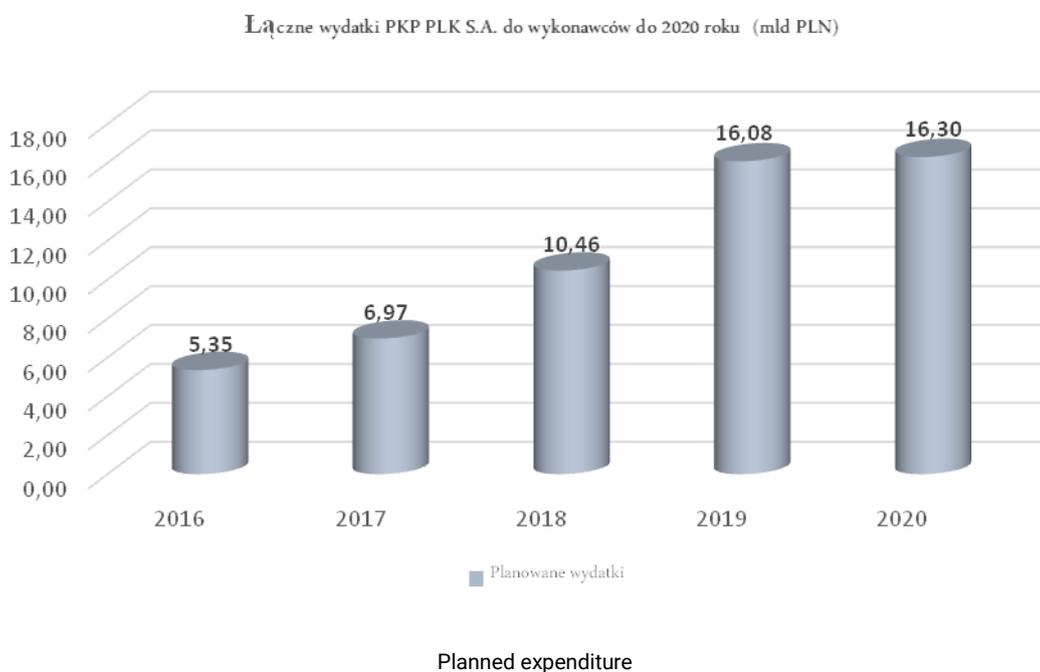
³ <http://www.rynek-kolejowy.pl/wiadomosci/plk-inwestuja-w-linie-aglomeracyjne-75274.html>

- Poznań is planning to improve rail traffic in the urban area by building new tracks and installing modern traffic control equipment on the lines. There are also plans to upgrade Wrocław – Poznań line to ensure better access from Leszno.

The National Railway Programme is to be funded largely by the EU Cohesion Fund (including the Operational Programme Infrastructure and Environment 2014-2020 and the funds unspent in the years 2007-2013, Connecting Europe Facility (CEF), and Regional Operational Programmes 2014-2020). According to the schedule set forth in the NRP, the contractors are to receive PLN 55bn in connection with the planned railway projects by 2020, including approx. PLN 42bn from the EU funds. The remainder will be financed from the state budget, PKP PLK's own funds and the Railway Fund.

The European Commission approved all the applications submitted by PKP PLK under the CEF Programme, in the framework of the EU financial perspective for 2014-2020. PKP PLK is to receive more than PLN 7.5bn as a subsidy for modernization of 570 km of railway lines under this programme.

Total expenditure of PKP PLK S.A. to be received by contractors until 2020 (PLN bn)



Source: National Railway Programme until 2023 (page 33)

In January 2016, at a meeting with the rail industry representatives, the Minister of Infrastructure and Construction of Poland presented an investment plan with amendments in relation to the information set out in the NRP. For 2016, PKP PLK plans capital expenditures of PLN 4.5bn, followed by PLN 7.4bn in 2017 and approx. PLN 9bn in 2018. According to the notice provided in February 2016, expenditures for 2016 stood at PLN 4.3bn.

In 2015, PKP PLK announced tenders with a total value of approx. PLN 16bn i.e. PLN 2bn in excess of the amount originally assumed. The major contracts under the aforesaid pool are to be awarded in 2016. In 2016, PKP PLK plans to announce 60 larger tenders for a total amount of approx. PLN 8.1bn.⁴ In 2016, PKP PLK will also submit applications for two consecutive competitions for projects to be funded under the Connecting Europe Facility (CEF).

⁴ <http://www.rynek-kolejowy.pl/wiadomosci/ponad-8-mld-zl-na-tory-znamy-plany-przetargowe-plk-na-ten-rok-75232.html>

It is expected that the projects under the EU perspective 2014-2020 will boost in two periods of project peaks. The first acceleration of projects is to be witnessed in the years 2018-2019, when the currently announced tenders will be implemented. The second peak of public contracts, of a much higher value, is expected only in the years 2022-2023, at the end of the perspective, taking into account a three-year renewal period.⁵

Power infrastructure market

Polskie Sieci Elektroenergetyczne S.A. (PSE) is a transmission system operator (TSO) for electricity in Poland. The key and most important responsibility of PSE is to ensure security of electricity supply – both at present and in the long term. PSE must also create conditions for connecting and feeding electricity from new power plants and renewable energy sources (RES) into transmission grid as well as develop cross-border interconnections. While implementing the Energy Policy of Poland, PSE focuses its investment activities mainly on the development of 400 kV lines, which provide greater transmission capacity compared to the 220 kV lines, with lower energy losses. The existing 220 kV lines are gradually replaced with 400 kV lines and a long-term programme has been put in place to replace the existing transformers with the ones ensuring lower losses.

Plans for development of the transmission grid are always coordinated with the distribution grid development plans.

The information contained in the “Development plan to meet current and future electricity demand for the years 2016 – 2025” reveals that in the period 2016-2020, PSE plans to incur capital expenditures on infrastructure in the amount of PLN 7bn. In the period 2021-2025, the capital expenditures are expected to amount to PLN 6.3bn. Thus, PSE’s total capital expenditures in the period 2016-2025 will amount to approx. PLN 13.3bn.

The capital expenditures foreseen by PSE will result in the following improvements being in place in 2025 compared to 2015:

- 1) increase in the length of 400 kV lines by approx. 4,147 km,
- 2) decrease in the length of 220 kV lines by 1,156 km (decommissioning of 1,310 km, and construction of new 154 km),
- 3) increase of the potential for transformation between different voltage levels.

9. Factors believed by the Issuer to have an influence on the Company’s development

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

• Untimely settlement of liabilities to the Company

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

• Delays or unfavourable outcome of tenders the participates in

A risk related to the terms and procedures of public tenders is specific to the industry the Company 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

⁵ <http://www.rynek-kolejowy.pl/wiadomosci/luka-inwestycyjna-na-kolei-potwierdzona-75217.html>

urban, rail and power infrastructure market. These events could have a negative influence on the Company'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 Company's revenue planned for the current year may be transferred to the next year.

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

The Company'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 Company is exposed to a price risk.

- **Higher fees charged by subcontractors**

When executing its contracts, the Company 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 may have a negative impact on the Company's financial results.

- **Unstable EUR/PLN exchange rate**

The Company purchases certain imported products in EUR, which entails a foreign exchange risk. This may have a positive or negative impact on the Company'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 ZUE.

- **Outcome of court proceedings**

The Company is a party to the court proceedings concerning both its claims and liabilities. The outcome of these proceedings may have an impact on the Company's financial results.

10. Fundamental risks and threats

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

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

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

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

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

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

- **Risk related to obtaining administrative decisions, ability to appeal against administrative decisions and third**

parties' activities influencing the Company's design or construction tasks

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

• Risk related to joint and several liability to subcontractors and contracting authority

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

• Risk related to bonds, contractual penalties and related court disputes

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

• Risk of untimely completion of construction works

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

• Risk related to logistics

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

• Risk related to bankruptcy of counterparties

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

• Risk related to guarantee of payment for construction works

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

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

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

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

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

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

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

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

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

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

- **Interest rate risk**

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

- **Risk related to weather conditions**

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

- **Risk related to greater employments costs**

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

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

11. Major contracts

Construction contracts

On 27 March 2015, ZUE and PKP Polskie Linie Kolejowe S.A. entered into the contract for Upgrade of the railway line no. 137 on the Katowice – Chorzów Batory section as part of the following project: “Upgrade of the railway lines no. 134, 137 and 138 on the Gliwice Łabędy - Katowice - Sosnowiec Jęzor section.” The Company informed of the submission of the lowest price tender in the current report 44/2014 and the selection of the Company’s tender as the most advantageous offer in the current report 40/2014. The contract gross value was PLN 52.3m. The contract net value was PLN 42.5m. The completion date was set at 30 November 2015. **(Current report 49/2015)**

On 17 July 2015, the Company and Zarząd Infrastruktury Komunalnej i Transportu w Krakowie entered into the contract in connection with the following project: “Maintenance and repair of tram infrastructure in Cracow in the period 2015 – 2018.” The Company informed of the submission of the lowest price tender in the current report 74/2015 and the selection of the Company’s tender as the most advantageous offer in the current report 80/2015. The contract net value would not exceed PLN 42.3m (gross value of PLN 52.0). The contract value included a lump-sum remuneration for maintenance works in the gross amount of PLN 19.7m, remuneration for repairs in the gross amount up to PLN 14.9m and remuneration for other services, including additional tasks under the Contract, in the gross amount up to PLN 17.4m. The contract would be performed in the period 1 August 2015 – 31 July 2018. **(Current report 85/2015)**

On 30 July 2015, a contract was entered into between PKP Polskie Linie Kolejowe S.A. and the consortium of the Company (Leader) and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. (Partner) (jointly referred to as the “Consortium”). The contract provided for the performance by the Consortium of a set of tasks in connection with “Upgrade of the track no. 2 of the railway line no. 131 on the Tarnowskie Góry – Kalety section, reconstruction of the Baronów station and the reconstruction of 18 crossovers at the Tarnowskie Góry station, as part of the following project: “Upgrade of the Chorzów Batory - Tczew railway line no. 131, the Bydgoszcz Główna - Zduńska Wola - Chorzów Batory section” (the “Contract”). The Company informed of the submission of the lowest price tender by the Consortium in the current report 58/2015 and the selection of the Consortium’s tender as the most advantageous offer in the current report 82/2015. The contract net value used for the calculation of contractual penalties was PLN 45.9m and the net remuneration attributable to the Company under the said Contract was PLN 27.4m. The contract gross value was PLN 56.5m. The completion date was set at 31 December 2015. **(Current report 86/2015)**

On 12 August 2015, ZUE and Tramwaje Warszawskie Sp. z o.o. signed the contract for “Reconstruction (upgrade) of the tram route on the Dworzec Wileński – Żerań Wschodni section.” The Company informed of the submission of the lowest price tender in the current report 75/2015 and the selection of the Company’s tender as the most advantageous offer in the current report 84/2015. The contract net value was PLN 53.0m. The contract gross value was PLN 65.2m. The completion date was set at 16 April 2016 and the completion date for construction works was set at 15 November 2015. **(Current report 88/2015)**. In November 2015, an annex to the abovementioned contract was signed whereby the completion date for construction works was rescheduled for the second half of December 2015.

On 1 October 2015, ZUE and Strabag Sp. z o.o. signed a subcontract in connection with the following project: “Reconstruction (upgrade) of the tram route on the Dworzec Wileński – Żerań Wschodni section” carried out by the Company for Tramwaje Warszawskie Sp. z o.o. The contract net value was PLN 24.9m. The contract gross value was PLN 30.6m. The contract completion date was set at 14 April 2016 but all construction works, except for the green area management, had to be done by 14 November 2015. **(Current report 89/2015)**

Financial agreements

On 3 February 2015, the agreement was concluded by and between the Management Board of ZUE and mBank S.A. The agreement provided for the issue by the Bank, at the Company’s request, of the two irrevocable bank guarantees up to PLN 9.9m each payable on first demand to Thyssenkrupp GFT Polska Sp. z o.o. with registered office in Cracow (the “Seller”). Consequently, the condition precedent concerning the agreement referred to in the current report 19/2015 was met.

The fees the Company was obliged to pay in connection with the Guarantees issued by the Bank had been determined on arm’s length. The Guarantees expired after the payment had been made in line with the agreement. **(Current report 24/2015)**

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

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

On 29 May 2015, ZUE and PZU S.A. signed the Annex no. 10 to the bonding products agreement of 29 April 2010. The Annex dealt mainly with the increase of the maximum limit by PLN 12.9m.

On 15 June 2015, the Issuer and mBank S.A. signed the annex to the cooperation agreement of 30 June 2014 for the Company's use of the Bank's products and services to finance the Company's day-to-day operations with annexes. Under the annex, the limit for non-revolving working capital facilities was raised from PLN 20m to PLN 90m and the security clauses were amended. **(Current report 69/2015)**

On 22 December 2015, ZUE signed another annex to the abovementioned agreement whereby the product limit was temporarily reduced from PLN 90m to PLN 20m. The limit would be reduced from 23 December 2015 till the end of January 2016. After the end of January 2016, the limit would be restored to PLN 90m. In addition, the Annex dealt with the amounts of sublimits for guarantees and non-revolving working capital facilities. **(Current report 98/2015)**

On 19 August 2015, the Company and TU Euler Hermes S.A. signed an annex to the agreement for the provision of project-related guarantees under a revolving guarantee facility. The most important amendment under the annex was a change of the fixed-term to indefinite agreement.

On 20 October 2015, ZUE and Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (KUKE) entered into the master agreement for the provision of bonding products guaranteed by the State Treasury. Under the Agreement, KUKE was obliged to provide the bonding products to the Company's foreign counterparties (the "Beneficiaries") to secure the performance of the Company's obligation to the Beneficiary if the security was required by the Beneficiary. The agreement net value was EUR 5m; i.e. approx. PLN 21.2m at the exchange rate quoted by the National Bank of Poland on the agreement date. The agreement was concluded for a definite term until 3 September 2016. **(Current report 90/2015)**

On 9 December 2015, ZUE signed an annex to the abovementioned agreement whereby the limit of the facility was raised from EUR 5m to EUR 12.5m; i.e. the equivalent of approx. PLN 54.1m at the exchange rate quoted by the National Bank of Poland at the annex conclusion date. In addition, the period in which KUKE could provide the bonding products to the Company was extended from 3 September 2016 to 1 December 2016. **(Current report 94/2015)**

On 26 October 2015, ZUE was provided by Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (KUKE) with a signed annex to the master agreement for project-related bonding products whereby the limit of the facility was raised from PLN 15m to PLN 30m. **(Current report 91/2015)**

On 10 December 2015, the Company and BGŻ BNP Paribas S.A. (the "Bank") entered into the financing agreement whereby the Company was provided with the credit limit up to PLN 100m and the detailed agreements specifying the terms of the limit use. Under the agreement, the Bank and the Company entered into the revolving credit facility agreement to finance day-to-day operations of the Company up to PLN 30m. The facility bore interest at 1M WIBOR plus Bank's margin and the term of the credit was 8 December 2017 – 10 December 2025. Another agreement signed by the parties was the guarantee line agreement with the maximum limit of PLN 70m and the term of the credit from 8 December 2017 to 10 December 2025. The products provided under the agreement included bid bonds, performance bonds and defects liability bonds. **(Current report 96/2015)**

On 17 December 2015, ZUE and Towarzystwo Ubezpieczeń i Reasekuracji „WARTA” S.A. (the “Guarantor”) signed an annex to the agreement for the provision of project-related bonding products under a specified limit whereby the limit of the facility was set at PLN 60m. Under the agreement, the Guarantor would provide the Company, at the Company’s request, with project-related bonding products including bid bonds, performance bonds, defects liability bonds and advance payment bonds. The agreement was in full force and effect until December 2016 **(Current report 97/2015)**

12. Major events

Corporate events

On 27 January 2015, the Management Board of ZUE entered into the contract with ThyssenKrupp GfT Polska Sp. z o.o. of Cracow (the “Seller”). Under the contract, the Company bought from the Seller the track structure materials such as tram and railway rails, track accessories, sleepers etc. for PLN 19.6m plus VAT. The said amount was paid in the following manner:

- I instalment of PLN 9.8m plus VAT – by 31 March 2015;
- II instalment of PLN 9.8m plus VAT – by 30 April 2015.

The contract was concluded under the condition precedent that the Company provided the Seller by 4 February 2015 with two irrevocable bank guarantees (the “Guarantees”) up to PLN 9.9m each payable on first demand. In addition, the Company was obliged under the conditions precedent to buy the sleepers of the total value of PLN 265 thousand by 31 December 2015 and other track structure materials of the total value of approx. PLN 40.4m, whose purchase would be paid for in instalments, by 31 January 2016. **(Current report 19/2015)**

On 16 February 2015, ZUE signed a letter of intent concerning the acquisition of 70% of shares in Railway gft Polska Sp. z o.o. of Cracow. Railway gft conducted its activities in the same scope as ThyssenKrupp GfT Polska Sp. z o.o. and continued to supply rails, sleepers, accessories, aggregate, etc. The transaction was under the condition precedent that the consent was given by the President of the Office of Competition and Consumer Protection (the “OCCP”) or there were circumstances in which the consent was not required. **(Current report 33/2015)**

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

- a) The Company received an unconditional consent of the President of the OCCP to the concentration; or
- b) The Company received a decision of the President of the OCCP to discontinue the concentration proceedings as there was no notice requirement; or
- c) The notice was returned because the President of the OCCP decided it was not required; or
- d) The deadline for the decision of the President of the OCCP expired as a result of which it was assumed, under the Polish Competition and Consumer Protection Act, that the unconditional consent to the concentration had been given by the President of the OCCP. **(Current report 47/2015)**

On 15 April 2015, the Company learnt of the approval by the President of the OCCP of the concentration; i.e. gaining control by the Company of Railway gft Polska Sp. z o.o. with registered office in Cracow through the acquisition of shares in Railway gft. The transaction was under the condition precedent that the consent was given to the Company by the President of the OCCP. The consent was given and the condition precedent was met. The decision fully complied with the Company’s request and could be performed on 15 April 2015. Consequently,

ZUE gained control of Railway gft on 15 April 2015 and Railway gft became its subsidiary. **(Current report 53/2015)**

On 18 June 2015, the Ordinary General Meeting of ZUE resolved to allocate the entire net profit earned by the Company in 2014 to reserve funds. **(Current report 71/2015)**

On 30 June 2015, the Company informed that Mr. Arkadiusz Wierciński had resigned from the position of the Management Board Member as of 31 July 2015. **(Current report 78/2015)**

On 7 July 2015, the Company ended the buy-back of own shares. The shares had been bought back since 7 January 2015 on the basis of the Resolution no. 4 passed by the Company's Extraordinary General Meeting on 8 December 2014 authorising the Management Board of ZUE S.A. to buy back the shares. The transaction was closed because the six-month period for reporting by the eligible parties of their demand to buy back the shares had passed. The Company bought back the total of 264,652 ZUE shares. **(Current report 83/2015)**

On 23 December 2015, ZUE learnt about the settlement reached on 22 December 2015 before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw (the "Court"). The case was brought by PORR Polska Infrastruktura S.A. (former Bilfinger Infrastruktura S.A.), the Company and Przedsiębiorstwo Budowy Kopalń PEBEKA S.A. (the "Petitioners") against Miasto Poznań – Zarząd Transportu Miejskiego (the City of Poznań) and Poznańskie Inwestycje Miejskie Sp. z o.o. (the "Defendants") and concerned, *inter alia*, the payment of approx. PLN 12.6m by the City of Poznań to the Petitioners to cover various costs and expenses incurred in connection with the performance of the following contract: "Construction of the tramway line from os. Lecha to Franowo" (the "Contract"). The settlement was reached by PORR Polska Infrastruktura S.A. acting on behalf of the Petitioners. In addition, the Court passed the final judgment on 22 December 2015 whereby the City of Poznań was ordered to transfer the gross amount of PLN 9.7m to the bank account of PORR Polska Infrastruktura S.A. At 23 December 2015, the estimated net amount attributable to the Company under the consortium agreement was approx. PLN 2m. The amount could change following internal detailed settlements between the Petitioners. **(Current report 99/2015)**

Other events

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

On 28 September 2015, the Company entered into the set-off agreement with BPK Poznań (after merger). Under the agreement, ZUE's claims up to PLN 3.85m related to the loans and services provided to BPK Poznań (after merger) were set off against the claims of BPK Poznań (after merger) connected with ZUE's acquisition of 76,975 shares in BPK Poznań (after merger) created as a result of the share capital increase effected on 28 September 2015.

On 28 September 2015, the Company and BPK Poznań (after merger) concluded the sales agreement whereby ZUE bought the leasehold to the plot in Poznań and the ownership of an office building situated therein. Transaction value: PLN 3.7m.

On 10 November 2015, the Company and Laboratorium Kosmetyków Naturalnych Farmona Sp. z o.o. entered into the contingent sales agreement whereby leasehold and real estate in Cracow were sold by ZUE provided that no pre-emptive right was exercised by the Mayor of Cracow. Transaction value: PLN 3.1m. The final agreement was signed on 23 December 2015.

13. Major events after the reporting period

Below please find the information about the events after the reporting period taking account of:

- Amendments to major contracts whereby the term thereof is extended or shortened by at least 20% but by no less than 2 months;
- Amendments to major contracts whereby the net value thereof is increased or decreased by at least 10% but by no less than PLN 4m; and
- Information about other important events.

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. **(Current reports 2/2016, 4/2016, 5/2016, 6/2016, 8/2016, 11/2016, 13/2016)**

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

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)**

14. Transactions with related entities

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

Section 36 "Transactions with related entities" of the separate financial statements contains detailed information about transactions with related entities.

15. Bonds and guarantees

The operations conducted by ZUE 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 table below sets out the limits provided to ZUE and the use thereof as at 31 December 2015.

Item	Limit provided ['000]	Limit used ['000]	Remaining balance ['000]
Insurance companies – bonds in PLN			
WARTA	60,000	11,059	48,941
EUROPA	10,000	2,363	7,637
EULER HERMES	35,000	8,287	26,713
KUKE	30,000	1,335	28,665
GENERALI	42,100	28,150	13,950
PZU	90,000	55,221	34,779
GOTHAER	10,000	0	10,000
ERGO HESTIA		9,778	
ALLIANZ		3,261	
INTERRISK		20	
Total limits (PLN '000)	277,100	119,474	170,685
Insurance companies – bonds in EUR			
KUKE - bonds guaranteed by the State Treasury	12,500	0	12,500
Total limits (EUR '000)	12,500	0	12,500
Banks			
mBank		15,588	
<i>Including the limit provided under the Cooperation Agreement *</i>	20,000	7,631	12,369
Bank BGŻ BNP Paribas		14,162	
<i>under bond line</i>	3,500	851	2,649
<i>under bond line agreement</i>	70,000	0	70,000
Millennium		492	
Banks – bonds in PLN	93,500	30,241	85,019

* Under the Annex no. 5 of 22.12.2015, the limit was reduced to PLN 20,000,000.00 between 23 December 2015 and 31 January 2016 and raised to PLN 90,000,000.00 as of 1 February 2016. Product sub-limits also changed: Sub-limit for bonds was reduced to PLN 20,000,000.00 between 23 December 2015 and 31 January 2016 and was PLN 30,000,000.00 as of 1 February 2016; and sub-limit for non-revolving working capital facilities was reduced to PLN 20,000,000.00 between 23 December 2015 and 31 January 2016 and was PLN 70,000,000.00 as of 1 February 2016.

ZUE S.A. is the parent company of the Group and, if needed, guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the guarantees as at 31 December 2015 was PLN 12,206 thousand.

In addition, corporate guarantees were given by ZUE to secure the transactions entered into by subsidiaries in the total amount of PLN 22,931 thousand.

As part of its operations, ZUE is provided by its subcontractors with performance bonds and defects liability bonds in the form of bonds and guarantees provided by banks and insurance companies or bills of exchange. Contingent assets as at 31 December 2015 stood at PLN 30,775 thousand.

FINANCIAL INFORMATION

16. Discussion of major items of the statement of profit or loss

The table below sets out the items of the separate statement of profit or loss recorded by the Company in 2015 and the comparative data of 2014.

Item (PLN '000)	31-12-2015	31-12-2014	Change	% change
Revenue	509,586	637,976	-128,390	-20%
Cost of sales	463,592	602,543	-138,951	-23%
Gross profit (loss)	45,994	35,433	10,561	30%
General and administrative expenses	17,609	17,067	542	3%
Other operating income	5,992	3,806	2,186	57%
Other operating expenses	6,535	6,388	147	2%
Operating profit (loss)	27,841	15,784	12,058	76%
Financial income	853	1,333	-480	-36%
Financial expenses	7,849	3,127	4,722	151%
Pre-tax profit (loss)	20,845	13,989	6,855	49%
Corporate income tax	5,496	3,368	2,128	63%
Net profit (loss) from continuing operations	15,349	10,622	4,727	45%
Net profit (loss)	15,349	10,622	4,727	45%

Net revenue in the reporting period was PLN 509,586 thousand and decreased by 20% when compared with 2014. A decrease in cost of sales was more dynamic (23%) as a result of which gross profit was PLN 45,994 thousand – an increase by 30% when compared with the end of 2014.

General and administrative expenses amounted to PLN 17,609 thousand and increased year-on-year by 3%.

Favourable outcome of court proceedings of PLN 3,534 thousand contributed to a considerable portion of other operating income. Other operating expenses included mainly the write-down of investment property of PLN 3,500 thousand and the write-downs of receivables of PLN 1,250 thousand.

EBIT was PLN 27,841 thousand – up by 76% compared with the same period last year.

Financial expenses at the end of 2015 were PLN 7,849 thousand while at the end of 2014, they amounted to PLN 3,127 thousand. An increase in financial expenses was influenced by the write-down of shares in the total amount of PLN 6,762 thousand.

Gross profit was PLN 20,845 thousand and increased by PLN 6,855 when compared with the end of 2014.

ZUE reported a net profit of PLN 15,349 thousand. The analogous figure reported by the Company in 2014 was lower by 45%.

17. Discussion of major items of the statements of financial position

The table below sets out the main items of the separate statement of financial position recorded by the Company as at 31 December 2015 and the comparative data as at 31 December 2014.

Item (PLN '000)	31.12.2015	31.12.2014	Change	% change
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	77,985	68,547	9,438	14%
Investment property	7,822	7,823	-1	0%
Intangible assets	9,638	10,969	-1,331	-12%
Goodwill	31,172	31,172	0	0%
Investments in non-consolidated subsidiaries	239	2,942	-2,704	-92%
Advance payments for investments in subordinates	0	0	0	0%
Long-term receivables	0	0	0	0%
Retentions on construction contracts	5,289	2,879	2,410	84%
Deferred tax assets	8,233	6,659	1,574	24%
Other assets	0	8	-8	-100%
Total non-current assets	140,377	130,999	9,378	7%
CURRENT ASSETS				
Inventories	18,368	17,921	447	2%
Trade and other receivables	73,889	176,478	-102,589	-58%
Retentions on construction contracts	602	844	-242	-29%
Current tax assets	3,955	1,908	2,047	107%
Other financial receivables	0	0	0	0%
Other assets	1,061	1,772	-711	-40%
Loans advanced	158	1,139	-981	-86%
Cash and cash equivalents	169,795	71,116	98,679	139%
Total current assets	267,827	271,177	-3,350	-1%
TOTAL ASSETS	408,204	402,176	6,028	1%
EQUITY AND LIABILITIES				
EQUITY				
Share capital	5,758	5,758	0	0%
Share premium account	93,837	93,837	0	0%
Treasury shares	-2,690	0	-2,690	100%
Retained earnings	118,706	103,369	15,337	15%
Total equity	215,611	202,963	12,648	6%
NON-CURRENT LIABILITIES				
Long-term bank borrowings and other debt instruments and other financing sources	11,155	5,224	5,931	114%

Retentions on construction contracts	7,991	8,768	-777	-9%
Other financial liabilities	0	0	0	
Liabilities under employee benefits	697	766	-69	-9%
Deferred tax liabilities	0	0	0	
Long-term provisions	6,942	8,410	-1,468	-17%
Deferred income	0	0	0	
Other liabilities w	910	0	910	
Total non-current liabilities	27,695	23,169	4,526	20%
CURRENT LIABILITIES				
Trade and other payables	112,381	130,021	-17,640	-14%
Retentions on construction contracts	11,668	18,122	-6,454	-36%
Short-term bank borrowings and other debt instruments and other financing sources	6,111	9,214	-3,103	-34%
Other financial liabilities	37	3	35	1240%
Liabilities under employee benefits	21,947	13,050	8,898	68%
Current tax liabilities	0	0	0	
Short-term provisions	12,755	5,635	7,119	126%
Total current liabilities	164,898	176,044	-11,146	-6%
Total liabilities	192,593	199,213	-6,619	-3%
TOTAL EQUITY AND LIABILITIES	408,204	402,176	6,028	1%

At the end of 2015, the balance sheet total of the Company amounted to PLN 408,204 thousand – up by 1% compared to the end of 2014.

Non-current assets at 31 December 2015 stood at PLN 140,377 thousand and represented 34% of the balance sheet total. The figure increased by PLN 9,378 thousand (7%) when compared with non-current assets reported at the end of 2014 (PLN 130,999 thousand).

As for non-current assets, property, plant and equipment saw the biggest change. They increased year-on-year by PLN 9,438 thousand. The change occurred after the Company had invested in the machines required to conduct day-to-day operations.

Non-current assets at 31 December 2015 stood at PLN 267,827 thousand and represented 66% of the balance sheet total. As for current assets, the major item was cash and cash equivalents, which amounted to PLN 169,795 thousand – up by PLN 98,679 thousand when compared with the end of 2014. The increase resulted from payments under the contracts completed in Poznań and Szczecin. Trade and other receivables saw a significant drop as a result of cash paid in connection with settled contracts. Inventories increased after the Company had purchased the materials in order to use them as part of its sales activity.

Equity had a 53% share in the balance sheet total and grew over the figure reported in 2014. At the end of the reporting period, equity stood at PLN 215,611 thousand. Treasury shares of PLN – 2,690 thousand was as a result of the buy-back of own shares in 2015

Compared to the analogous period of 2014, non-current liabilities increased by 20% and reached PLN 27,695 thousand. Long-term bank borrowings and other debt instruments and other financing sources increased by PLN 5,931 thousand to PLN 11,155 thousand mainly as a result of lease agreements entered into in order to invest in machines.

Current liabilities decreased on a yearly basis by 6% and were PLN 164,898 thousand. The increase in liabilities under employee benefits by PLN 8,898 thousand was a result of the creation of provisions for bonuses for employees, short-term pension benefits and other employee benefits.

Changes in other items of assets and liabilities reflected the nature of the Company's operations and stages of contracts performed by ZUE.

18. Discussion of items of the statement of cash flows

The table below sets out the main items of the separate statement of cash flows recorded by the Company as at 31 December 2015 and the comparative data as at 31 December 2014.

Item (PLN '000)	31.12.2015	31.12.2014	Change
Cash flows from operating activities	119,294	72,441	46,853
Cash flows from investing activities	-8,425	-7,431	-994
Cash flows from financing activities	-11,862	-43,536	31,674
Total net cash flows	99,007	21,474	77,533
Foreign exchange gains / (losses)	-329	-3	-326
Cash and cash equivalents at the beginning of the period	71,116	49,645	21,471
Cash and cash equivalents at the end of the period	169,795	71,116	98,679
Depreciation / amortisation	8,732	8,347	385

ZUE began 2015 with the cash of PLN 71,116 thousand and ended it with the cash of PLN 169,795 thousand. At the end of 2015, cash flows from operating activities were positive and stood at PLN 46,853 thousand mainly as a result of proceeds from the final settlement of the Franowo depot contract and the payment under the following contract: Design and completion of construction works in connection with the reconstruction of the Pogodno tram depot in Szczecin.

Cash flows from investing activities were negative and amounted to PLN (-) 8,425 (PLN (-) 7,431 thousand in 2014).

Cash flows from financing activities were negative and amounted to PLN (-) 11,862 thousand – a considerable change when compared with 2014 (PLN (-) 43,536 thousand).

19. Analysis of ratios

19.1. Debt ratios

Item	31.12.2015	31.12.2014	Rules of ratio calculation
Debt ratio	0.5	0.5	<i>(non-current and current liabilities + provisions for liabilities) / total assets</i>
Debt to equity ratio	0.9	1.0	<i>(non-current and current liabilities) / equity</i>
Equity to assets ratio	0.5	0.5	<i>equity / total assets</i>
Fixed capital to non-current assets ratio	1.7	1.7	<i>(equity + non-current liabilities) / non-current assets</i>
Short-term debt ratio	0.4	0.4	<i>current liabilities / total assets</i>
Long-term debt ratio	0.1	0.1	<i>non-current liabilities / total assets</i>
Interest coverage ratio	68.8	20.9	<i>EBIT / interest</i>

19.2. Liquidity ratios

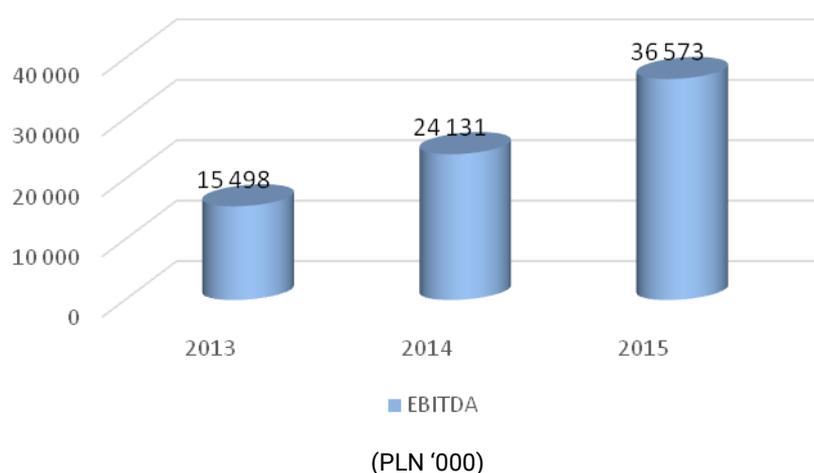
Item	31.12.2015	31.12.2014	Rules of ratio calculation
------	------------	------------	----------------------------

Working capital	102,929	95,132	<i>current assets – current liabilities</i>
Current ratio	1.6	1.5	<i>current assets / current liabilities</i>
Quick ratio	1.5	1.4	<i>(current assets – inventory) / current liabilities</i>
Cash ratio	1.0	0.4	<i>cash and cash equivalents / current liabilities</i>

19.3. Profitability ratios

Item	31.12.2015	31.12.2014	Rules of ratio calculation
Gross margin	9.03%	5.55%	<i>gross profit / revenue</i>
EBITDA	36,573	24,131	<i>operating profit + depreciation / amortisation</i>
EBITDA margin	7.18%	3.78%	<i>EBITDA / revenue</i>
EBIT margin	5.46%	2.47%	<i>EBIT / revenue</i>
Gross margin	4.04%	2.18%	<i>gross profit / (revenue + other operating income + other financial income)</i>
Net margin	3.01%	1.66%	<i>net profit / revenue</i>
ROA	3.76%	2.61%	<i>net profit / assets</i>
ROE	7.66%	5.52%	<i>net profit / equity</i>

EBITDA (dane w tys. PLN)



20. Unusual factors and events with significant influence on the Company's results

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

Elektrobudowa SA issued and handed invoices to the Contracting Authority. However, according to the public procurement contract and the consortium contract, ZUE was the entity authorised to issue invoices for the Contractor (i.e. the Consortium of ZUE and Elektrobudowa SA). MPK returned the invoices issued by

Elektrobudowa SA without posting them. MKP decided the documents had been groundlessly issued in breach of the terms of final settlement set out in the public procurement contract. The Contracting Authority noted it was obliged to pay ZUE directly on the basis of an invoice issued by the Company. The performance of the said obligation in any way other than specified in the contract would be in breach thereof and of the law.

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

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

The Company did not publish any forecast 2015 financial results.

22. Investments

22.1. Investments made in 2015

The total capital expenditure in 2015 was PLN 21,967 thousand. The capital expenditure is detailed in the table below.

Item (PLN '000)	Own funds	Leases	Credits	Total
Domestic investments				
Intangible assets, including:	115	0	0	115
- leasehold	0	0	0	0
Property, plant and equipment, including:	4,299	3,970	0	8,269
- buildings and structures	383	0	0	383
- plant and equipment	1,421	3,723	0	5,144
- vehicles	2,384	247	0	2,631
- other	111	0	0	111
Non-current assets under construction	0	9,791	0	9,791
Investment real property	3,792	0	0	3,792
Equity investments	0	0	0	0
Total domestic investments	8,206	13,761	0	21,967
Total international investments	0	0	0	0

The Company's major investments in 2015 in property, plant and equipment included:

- Purchase of SSP 110SW breakstone moulding machine for PLN 3,723 thousand. The transaction was financed under a lease contract;
- Purchase of GAF 100 RM hand car for PLN 846 thousand. The transaction was financed with own funds;
- Purchase of RM 80 UHR breakstone cleaner. The capital expenditure is PLN 9,791 thousand, lease contract;
- Complete overhauls of machines and vehicles in the total amount of PLN 1,963 thousand;
- Purchase of 3 cars for the total price of PLN 229 thousand. The purchase of 2 cars was financed with own funds and the purchase of 1 car was financed under a lease contract;
- Purchase of 5 trucks (3 Renault Master, Peugeot Boxer, Iveco Daily) for the total price of PLN 345 thousand. The purchase of 2 trucks was financed with own funds and the purchase of 2 trucks was financed under a lease contract;

- Purchase of telecom network and surveillance for PLN 115 thousand. The transaction was financed with own funds.
- Purchase of an office building and plot in Poznań, ul. Kościuszki 68, for PLN 3,792 thousand (including the leasehold of PLN 507 thousand). The transaction was financed with own funds;
- Purchase of telecom network and surveillance for PLN 115 thousand. The transaction was financed with own funds.

The Company's investments in intangible assets in 2015 mainly concerned the purchase of software.

In addition, ZUE signed the contingent preliminary agreement for the purchase of M62 Locomotive worth PLN 3,790 thousand.

The Company's investments in intangible assets in 2015 mainly concerned the purchase of software and leasehold.

22.2. Assessment of intended investments

The Company made a considerable number of investments in prior years. Thus, investments in property, plant and equipment as well as intangible assets will be made in 2016 as required by the activities conducted by ZUE.

We believe that the level of financial resources as well as available credit and lease lines are sufficient and thus we anticipate no changes whatsoever in the financing structure.

23. Management of financial resources

ZUE cooperates with a number of banks to ensure proper financing and bank guarantees required to conduct its activities. The table below sets out the use of bank credits and multifunctional lines as at 31.12.2015.

Bank	Description	Principal [PLN '000]	Outstanding amount as at 31.12.2015 [PLN '000]	Repayment date
mBank S.A.	Overdraft	10,000	0	2016-05-13
mBank S.A.	Cooperation agreement* Including:	20,000	7,631	2017-07-20
	Sublimit for guarantees	20,000	7,631	
	Sublimit for revolving credits	20,000	0	
BGŻ BNP Paribas S.A.	Financing agreement Including:	100,000	0	
	Revolving credit agreement	30,000	0	Credit term until 2025-11-09
	Guarantee line agreement – line with revolving limit	70,000	0	Credit term until 2025-11-09 First disbursement until: 2017- 11-07
	Total	130,000	7,631	

* Under the Annex no. 5 of 22.12.2015, the limit was reduced to PLN 20,000,000.00 between 23 December 2015 and 31 January 2016 and raised to PLN 90,000,000.00 as of 1 February 2016. Product sub-limits also changed: Sub-limit for bonds was reduced to PLN 20,000,000.00 between 23 December 2015 and 31 January 2016 and was PLN 30,000,000.00 as of 1 February 2016; and sublimit for non-revolving working capital facilities was reduced to PLN 20,000,000.00 between 23 December 2015 and 31 January 2016 and was PLN 70,000,000.00 as of 1 February 2016.

At 31 December 2015, the Company's debt under lease agreements was PLN 17,265 thousand.

At the end of 2015, ZUE had cash of PLN 169,795 thousand.

At the end of 2015, the total amount of loans granted by ZUE was PLN 157.7 thousand. The loans were granted to

RTI, a subsidiary, to finance its day-to-day operations.

24. Financial risk management

The Company's operations expose it to different financial risks that include foreign exchange risks, interest rate risks, price risks, credit risks and liquidity risks. The Board determine the policies for managing these risks.

The Company's transactions are sometimes settled in foreign currencies, mainly in EUR. The foreign exchange risk is mainly hedged by concluding contracts with counterparties whereby the risk is transferred to them.

The Company is exposed to interest rate risk mainly because it uses such instruments as bank borrowings, loans and finance lease. These instruments are issued at variable interest rates and expose the Company to the risk of cash flow fluctuations. The risk is hedged by regular assessments aimed at adjusting interest rates to current situation and readiness to incur a risk.

The Company is exposed to price risk relating to the increase in prices of the most popular 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).

Changes in prices of materials or labour costs may contribute to a change in service fees charged by subcontractors. Prices contained in contracts with investors remain fixed throughout the term of such contracts (usually from 6 to 36 months). However, contracts with subcontractors may be concluded at a later date as the works progress. The Group protects itself against the price risk by developing sales activities conducted by a subsidiary.

Taking the available market data into consideration, on the basis of the Company's knowledge and experience, the price risk is assessed as moderate.

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

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

Before a contract is signed, each counterparty is assessed in terms of their ability to fulfil their financial obligations. If the assessment is negative, signing of the contract is conditional at least on the provision of proper security on property or financial security. In addition, the Company tries to make sure that contracts with investors provide for the right to stop the works if the payment for the services already performed is delayed.

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RULES

25. Scope of application of corporate governance rules

The document stipulating corporate governance rules in 2015 and the statement of the Management Board of ZUE on the compliance with such corporate governance rules are available on ZUE's website: www.grupazue.pl; tab: Investor Relations > Corporate Governance.

In 2015, ZUE was subject to the Corporate Governance Rules contained in the Appendix to the Resolution no. 19/1307/2012 of the Warsaw Stock Exchange Supervisory Board dated 21 November 2012 – “Code of Best Practice for WSE Listed Companies” (the amendments made under this Resolution came into force on 1 January 2013).

Since 2016, ZUE has been subject to the Corporate Governance Rules “2016 Code of Best Practice for WSE Listed Companies.”

The Management Board of ZUE state that in the financial year 2015, the Company complied with all the Corporate Governance Rules specified in the Appendix to the Resolution no. 19/1307/2012 of the Warsaw Stock Exchange Supervisory Board dated 21 November 2012 – “Code of Best Practice for WSE Listed Companies,” except for the following rules.

Chapter I – Recommendations for Best Practice for Listed Companies

Item 5) - Content

“A company should have a remuneration policy and rules of defining the policy. The remuneration policy should define, in particular, the form, structure and level of remuneration of members of supervisory and managing bodies. The Commission Recommendation of 14 December 2004 on fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and the Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and managing bodies of the company.”

Item 5) – Statement of the Issuer

The remuneration of members of the Issuer's supervisory and managing bodies is defined according to the scope of their tasks, responsibility, the size of the Company and the Company's economic results. The Issuer does not intend to introduce any remuneration policy in order to have a greater freedom to decide.

Item 9) – Content

“The WSE recommends that public companies and their shareholders should have a balanced proportion of women and men in management and supervisory functions in companies to reinforce the creativity and innovation of the companies' business activity.”

Item 9) – Statement of the Issuer

The proportion of women and men in management and supervisory functions depends on their competence, skills and effectiveness. Sex is not used as a criterion in the appointment to the Issuer's supervisory or management bodies. Thus, the Issuer cannot guarantee a balanced proportion of women and men in management and supervisory functions.

Item 10) – Content

"If a company supports different forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers its activity in this area to be a part of its business mission and development strategy, impacting the innovativeness and competitiveness of the enterprise, it is good practice to publish, in a mode adopted by the company, the rules of its activity in this area."

Item 10) – Statement of the Issuer

ZUE S.A. supports a number of social activities, however the Company does not treat them as an important element of its mission or development strategy. These activities have no impact on the Company's innovativeness.

Item 11) – Content

"As part of a listed company's due care for the adequate quality of reporting practice, the company should take a position, expressed in a communication published on its website, unless the company considers other measures to be more adequate, wherever with regard to the company:

- published information is untrue or partly untrue from the beginning or at a later time;

- publicly expressed opinions are not based on material objective grounds from the beginning or as a result of later circumstances.

This rule concerns opinions and information expressed publicly by company representatives in the broad sense or by other persons whose statements may have an opinion-making effect, whether such information or opinions contain suggestions advantageous or disadvantageous to the company."

Item 11) – Statement of the Issuer

The Company publishes all important information relating to the Company using the Electronic Information Processing (ESPI) and Electronic Information Database (EBI) systems and on its website immediately after an event takes place. In addition, the Company's representatives make authorized statements. Full monitoring by ZUE S.A. of all opinions concerning the Company or its activities or the events relating to the Company as well as the speed of transfer and the receipt by the Company of information on opinion-making effects of statements made by other persons unrelated to the Company is in many cases hampered or even impossible. Consequently, the Company is not able to observe the foregoing rule.

Item 12) – Content

"A company should enable its shareholders to vote personally or through a proxy during a general meeting outside the place where the meeting is held with a use of electronic communication means."

Item 12) – Statement of the Issuer

According to Art. 406[5] of the Act, the participation in a general meeting with the use of electronic communication means is not mandatory and the Issuer's Articles of Association do not provide for it. The Issuer believes that the Company's Articles of Association, the provisions of the Act and the Company's Regulations of the General Meeting govern the course of and the participation in the general meetings in a comprehensive and sufficient manner.

Chapter II – Best Practice for Management Boards of Listed Companies

Item 1) - Content

"A company should operate a corporate website and publish on it, in addition to information required by legal regulations:

1) basic corporate regulations, in particular the articles of association and internal regulations of its governing bodies;

2) professional CVs of the members of its governing bodies;

2a) on an annual basis, in the fourth quarter – information about the participation of women and men respectively in the management board and in the supervisory board of the company in the last two years;

3) current and periodic reports;

4) (deleted);

5) where members of the company's governing body are elected by the general meeting – the basis for proposed candidates for the company's management board and supervisory board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;

6) annual reports on the activity of the supervisory board taking account of the work of its committees together with the evaluation of the work of the supervisory board and the internal control system and the significant risk management system submitted by the supervisory board;

7) shareholders' questions on issues on the agenda submitted before and during a general meeting together with answers those questions;

8) information about the reasons for cancellation of a general meeting, change of its date or agenda together with grounds;

9) information about breaks in a general meeting and the grounds for those breaks;

9a) audio or video record of a general meeting;

10) information about corporate events such as payment of the dividend or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;

11) information known to the management board based on a statement by a member of the supervisory board of any relationship of a member of the supervisory board with a shareholder that holds shares representing not less than 5% of all votes at the company's general meeting;

12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company in connection with such introduction;

13) a statement of compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published;

14) information about the content of the company's internal rules of changing an entity authorized to audit financial statements or information about the absence of such rule."

Item 1) – Statement of the Issuer

Given the fact the only record of a general meeting is the minutes prepared by a notary public pursuant to Art. 421 of the Act, the Issuer will not publish on its website any information referred to in the Rule II.1.7 and II.1. 9a).

Item 2) – Content

"A company should ensure that its website is also available in English, at least to the extent described in section II.1."

Item 2) – Statement of the Issuer

Given the size of the Issuer and the expected market capitalization, the Company believes the exposure to foreign investors will be small. Consequently, the costs of preparing and updating the website in English to be incurred by the Issuer would be disproportionate to benefits.

Chapter IV – Best Practice of Shareholders

Item 10) - Content

“A company should enable its shareholders to participate in a general meeting using electronic communication means through:

1) real-life broadcast of a general meetings;

2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting.”

Item 10) – Statement of the Issuer

According to Art. 406[5] of the Act, the participation in a general meeting with the use of electronic communication means is not mandatory and the Issuer’s Articles of Association do not provide for it. The Issuer believes that the Company’s Articles of Association, the provisions of the Act and the Company’s Regulations of the General Meeting govern the course of and the participation in the general meetings in a comprehensive and sufficient manner.

26.Key characteristics of ZUE’s risk management internal audit systems relating to the preparation of financial statements

Separate / consolidated financial statements of the ZUE Group are prepared in accordance with the International Financial Reporting Standards, as approved by the European Union.

The responsibility for the implementation of an internal control system in the Group rests with the Management Board of ZUE. Supervision over the preparation of financial statements is entrusted to a person holding the position of Chief Accountant, who is charged with ongoing monitoring of the work through all its stages. Risks are identified and mitigated by qualified staff of the Group’s financial unit. To guarantee an adequate level of security in the preparation of financial statements, accounting books are maintained with the use of the Microsoft Dynamics AX system, which can be accessed by authorised personnel only. The financial reporting process is controlled on an ongoing basis, through its successive stages. The Company’s complete separate / consolidated financial statements are submitted to the Management Board for final approval.

The entire process ends with an audit of the financial statements by a duly appointed independent auditor who works directly with, and provides comments to, the Supervisory Board.

Responsibility for the overall monitoring of the control system and its final assessment lies with the Supervisory Board. Pursuant to Art. 86.3 of the Act on Auditors, the Supervisory Board also performs the function of an Audit Committee responsible, *inter alia*, for:

- Internal audit function;
- Monitoring the external auditor’s independence;
- Monitoring the process of preparation of financial statements; and
- Monitoring the effectiveness of the risk management system.

27. Assessment of internal audit and risk management systems as well as supervision of the compliance of activities with the law

Given the type and scope of the Company's activities, there is no need for separate internal audit, risk management or supervision of the compliance of activities with the law in separate organizational units. The tasks relating to the internal audit are dispersed and carried out by the Company's individual organizational units.

The effectiveness of the Company's internal audit and risk management systems as well as the supervision of the compliance of activities with the law has been positively judged by the Management Board of ZUE.

Given the type and scope of the Company's activities, there are no grounds to identify any separate unit responsible for internal audit. At this report preparation date, the said tasks are monitored by the Audit Committee. However, changes are anticipated by the Company and a unit responsible for internal audit may be separated from its structures.

28. Shares and shareholding structure

28.1. Share capital structure

The Company's share capital amounts to 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;
- 1,030,083 class C bearer shares.

28.2. Treasury shares

Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna emerged as a result of the commercialisation of Przedsiębiorstwo Robót Kolejowych w Krakowie, the state-owned enterprise. The State Treasury was the company's sole shareholder until 6 January 2010. Under the sales agreements of 23 October 2009 and 12 June 2013, ZUE acquired shares from the State Treasury representing 85% and 0.9%, respectively, of the share capital of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna.

Given the privatisation of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna (PRK) which emerged as a result of the commercialisation of the state-owned enterprise, the eligible employees had the right to acquire, for no consideration, 15% of shares held by the State Treasury on the date of the Company's entry in the register. Pursuant to Art. 36 and 38 of the Polish Act on Commercialisation and Privatisation, the eligible employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna had the right to acquire the company shares from the State Treasury for no consideration. Following the privatisation process, the eligible employees acquired the total of 133,982 shares from the State Treasury.

On 16 September 2009, the Trade Unions at Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. (NSZZ Pracowników PRK w Krakowie S.A. and NSZZ „Solidarność”), Zakłady Usług Energetycznych i Komunikacyjnych, ZUE S.A. (now ZUE S.A.) and Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna signed the “Package of Social Guarantees; social and employee guarantees for the employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna with registered office in Cracow.” Pursuant to section III item 1 of the said Package, Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna was obliged to acquire, as of 7 January 2015, the employee shares from the employees entitled to acquire the shares for no consideration and the price of one share could not be lower than the price of one share on the date of ZUE's purchase of 85% of shares in Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna. In addition, section III item 3 of the said Package read that ZUE S.A. would purchase the shares at the price multiplied by 1.5

per share should Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna fail to perform the abovementioned obligation.

On 8 October 2013, the parties to the Social Package signed the annex no. 2 thereto to enable the shared interpretation of the document and make it more detailed. Thus, the document specified the persons authorised to demand the repurchase. The parties agreed that as of 7 January 2015, ZUE would be obliged to acquire ZUE S.A. shares received in exchange for the shares in Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna sold directly by the State Treasury from the eligible employees of ZUE or their legal successors. The number of shares, which could be repurchased, was 381,217. The demands were reported directly to ZUE S.A. and the company was obliged to repurchase the shares for PLN 10.05 (ten złoty and five grosz) per share within 90 days of the report. The said demand was not reported within 6 months of 7 January 2015 and the right to acquire the shares expires.

On 20 December 2013, the District Court for Cracow – Śródmieście in Cracow, XI Commercial Division of the National Court Register, registered the merger of ZUE S.A. and Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna merged through the transfer of all the assets of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna to ZUE Spółka Akcyjna in exchange for the shares issued by ZUE Spółka Akcyjna to the shareholders of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna.

ZUE bought back own shares between 7 January and 3 July 2015. The shares were acquired by the Company from the employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. on the basis of the Package of Social Guarantees signed on 16 September 2009 between the Trade Unions at Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., ZUE S.A. and Przedsiębiorstwem Robót Komunikacyjnych w Krakowie S.A. taking account of the changes made on the basis of the Annex 2 to the Package of Social Guarantees prepared on 8 October 2013. 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 authorising the Management Board of ZUE to buy back own shares. The buy-back ended after the six-month period for reporting by the eligible parties of their demand to buy back the shares had passed.

Summary of the buy-back of the shares:

- The total number of the shares acquired by the Company in 2015 as part of the buy-back is 264,652 and carries 264,652 votes at the Company's General Meeting;
- The total number of the shares acquired and kept by the Company in 2015 as part of the buy-back is 264,652 (the total par value is PLN 66,163). The shares carry 264,652 votes at the Company's General Meeting (1.15% of the Company's share capital);
- The acquired shares represent 1.15% of the Company's share capital and the total number of votes at the Company's General Meeting;
- The total par value of the acquired shares is PLN 66,163 thousand;
- The average unit price of each share is PLN 10.05 and the purchase price of each share is PLN 10.05;
- The total number of the shares held by the Company at 7 July 2015 is 264,652 and represents 1.15% of the Company's share capital and the total number of votes at the Company's General Meeting;
- The total amount spent on the buy-back is PLN 2,689,259. The General Meeting authorized the Company's Management Board to acquire the total number of not more than 381,217 shares; i.e. approx. 1.66% of the Company's share capital and spend no more than PLN 3,950,000.

The shares were acquired by the Company outside the organised trading for resale. The Company's Management Board intends to sell the acquired own shares in favourable market conditions on the stock exchange or outside organised trading.

28.3. Shareholding structure

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

Shareholder	Number of shares/votes at 10 March 2016	% of share capital/total number of votes	Number of shares/votes on the date of publication of the last quarterly report*	% of 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

* Publication of the last quarterly report (Consolidated quarterly report of ZUE S.A. for III quarter of 2015): 13 November 2015.

** 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.

28.4. Shares of ZUE and related entities held by members of the Issuer's management and supervisory bodies

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

Shareholder	Position at ZUE	Number of shares/votes at 10 March 2016	Par value [PLN]	% of share capital/total number of votes	Changes in shareholding since the publication of the last quarterly report *
Wiesław Nowak	Management Board President	14,400,320	3,600,080	62.53	None
Marcin Wiśniewski	Management Board Vice-President	2,300	575	0.01	None
Jerzy Czeremuga	Management Board Vice-President	136	34	< 0.01	None
Maciej Nowak	Management Board Member	7,706	1,926.50	0.03	None
Magdalena Lis	Supervisory Board Member	7,545	1,886.25	0.03	+ 140 shares
Michał Lis	Supervisory Board Member	661	165.25	< 0.01	None

* Publication of the last quarterly report (Consolidated quarterly report of ZUE S.A. for III quarter of 2015): 13 November 2015.

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

At 31 December 2015, Mr. Wiesław Nowak held 490 shares in RTI (a subsidiary) with a total par value of PLN 24,500 (49% of the share capital/total number of votes).

No shares in the Group companies were held by other members of the Issuer's management or supervisory bodies on the date of publication of the last quarterly report or the date of preparation of this report.

28.5. Holders of securities conferring special control powers

The Company did not issue any securities conferring special control powers.

28.6. Restrictions on exercise of voting rights

There are no restrictions on the exercise of voting rights at the Company.

28.7. Restrictions on transferability of securities

There are no restrictions on the transferability of the Company's securities.

29. Information about agreements known to the Issuer likely to cause changes to the proportions of shares held by the existing shareholders

Buy-back of ZUE own shares

In 2015, the Company bought back own shares. Section 28.2 of this report contains a detailed description of the transaction.

Apart from the abovementioned buy-back of shares, the Issuer is not aware of any agreements likely to change the proportions of shares held by the existing shareholders. In addition, the Company is not aware of any major agreements between the shareholders.

30. Issue of securities

No securities were issued by the Company in 2015.

GOVERNING BODIES

31. Composition and rules governing the operation of the Company's managing and supervisory bodies and their committees

31.1. Management Board of ZUE

Pursuant to the Articles of Association and the Regulations of the Management Board of ZUE, members of the Management Board are appointed and dismissed by the Company's Supervisory Board. Management Board members are appointed for a joint term of three years.

The Management Board is composed of one or more members and the number of members is defined by the Supervisory Board. The Supervisory Board appoints one member of the Management Board to the position of Management Board President and may appoint one or more members to the positions of Management Board Vice-Presidents.

The Management Board manages the affairs of the Company and represents the Company, subject to the powers vested in the General Meeting or the Supervisory Board under applicable laws or the Articles of Association.

The Management Board makes its decisions independently, subject to the activities which require the approval of the Company's other bodies under applicable laws or the Articles of Association.

The President of the Management Board supervises all employees and organisational units of the Company.

The President of the Management Board has the right to individually make final decisions with regard to internal relations including, in particular, employee relations, including the right to reverse the decision of another Management Board member (unless otherwise stated in a resolution previously adopted by the Management Board or applicable laws).

During his/her absence, the President of the Management Board may appoint another Management Board member. The appointed member has all the powers of the President of the Management Board.

Statements of will on behalf of the Company can be made by the President of the Management Board acting individually, two Management Board members acting jointly or one Management Board member together with a commercial proxy.

At this report preparation date, the Management Board was 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

Mr. Arkadiusz Wierciński resigned from the position of Member of the Management Board of ZUE on 31 July 2015. The composition of the Management Board remains unchanged because his duties have been taken over by the remaining members of the Company's Management Board (Current report 78/2015).

The remuneration of the Management Board members is set out in section 38 of the separate financial statements: Remuneration of key management personnel.

31.2. Agreements between the Issuer and the Board members providing for compensation for resignation or dismissal

All employment contracts signed by the members of the Company's Management Board contain a no competition clause, which continues in force for one year after the contract has been terminated by both the employer and employee.

During the said one-year period, the Company is obliged to pay damages equal to an employee's annual remuneration, except for additional remuneration, in monthly instalments. If an employment contract is terminated by a member of the Company's Management Board, the Company may decide, within 14 days of the receipt of termination notice, to release the member from their obligation to observe the no competition clause without having to pay damages.

31.3. Supervisory Board of ZUE

Pursuant to the Articles of Association and the Regulations of the Supervisory Board of ZUE, the Company's Supervisory Board is composed of five to seven members appointed and dismissed by the General Meeting for a joint term of three years.

Members of the Supervisory Board cannot include members of the Management Board, proxies, liquidators, branch or facility managers, the chief accountant, legal counsel or attorney employed by the Company, other employees directly reporting to a member of the Management Board or a liquidator, as well as members of the management board or liquidators of the Company subsidiaries.

Meetings of the Supervisory Board are convened as needed at least three times in a financial year.

The Supervisory Board meetings are held in the Company's office or another venue specified in the notice of the Supervisory Board meeting.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a tied vote, the Chairperson of the Supervisory Board has the casting vote.

The Supervisory Board performs its duties: 1/ at the Supervisory Board meetings, 2/ through the on-going and *ad hoc* supervisory activities as part of which it is entitled to:

- Review the scope of responsibilities of each of the Company departments;
- Request the Management Board and employees to provide relevant reports and clarifications;
- Review the Company's assets;
- Monitor the Company's financial standing;
- Inspect accounts and documents;
- Oblige the Management Board to engage an expert to prepare an assessment or opinion to be used by the Supervisory Board if a given matter requires specialist knowledge, qualifications, activities or an independent expert's assessment.

Members of the Supervisory Board of ZUE were appointed for a new three-year term under the resolutions of the Ordinary General Meeting of 27 May 2013. The composition of the Supervisory Board remained unchanged and at the end of the reporting period, it was composed of:

Mariusz Szubra	Supervisory Board Chairman
Bogusław Lipiński	Supervisory Board Member
Piotr Korzeniowski	Supervisory Board Member
Magdalena Lis	Supervisory Board Member
Michał Lis	Supervisory Board Member

No changes to the composition of the Company's Supervisory Board occurred in 2015. At this report preparation date, the Company's Supervisory Board was composed of the abovementioned members.

The remuneration of the Supervisory Board members is set out in section 38 of the separate financial statements: Remuneration of key management personnel.

32. Rules governing appointment and removal from office of managing persons and the managing persons' powers, including authority to decide on share issues or buybacks

Members of the Management Board of ZUE are appointed for a joint term of three years and removed from the office by the Supervisory Board. The Management Board of ZUE is not authorised to make decisions about the issue of shares. The only body authorised to make such decisions is the General Meeting. Powers of the Management Board of ZUE to make decisions concerning share buybacks are as stipulated in the Act.

33. Audit Committee

As the Supervisory Board is composed of five members, pursuant to Art. 86.3 of the Act on Auditors and Their Self-Government, Entities Authorized to Audit Financial Statements and Public Supervision (Journal of Laws of 2009, no. 77, item 649), it also performs the duties of an Audit Committee.

The person satisfying the requirements of Art. 86.4 of the Act on Auditors and Their Self-Government, Entities Authorized to Audit Financial Statements and Public Supervision (i.e. qualifications in accountancy or financial auditing) and independence criteria specified in the Code of Best Practice for the Warsaw Stock Exchange Listed Companies and the Articles of Association is Mariusz Szubra. The second independent member of the Supervisory Board satisfying the abovementioned independence criteria is Piotr Korzeniowski.

There is no Remuneration Committee at the Supervisory Board.

34. Amendments to ZUE's Articles of Association

Pursuant to the Act, the Company's Articles of Association may be amended by a resolution passed by the General Meeting. The amendment is reported by the Management Board to the registry court.

The General Meeting may authorise the Supervisory Board to prepare a uniform text of the amended Articles of Association or to make other editorial amendments as specified in a resolution of the General Meeting.

35. Operation of the General Meeting of ZUE

Pursuant to the Act and the Articles of Association of ZUE, the General Meeting is convened by the Company's Management Board.

General Meetings are held in the Company's registered office or in Warsaw.

The powers of the General Meeting include:

- Review and approval of the Management Board Report on the Company's operations and financial statements for the preceding financial year;
- Distribution of profit or coverage of loss and appropriation of funds established by the Company;
- Granting discharge to members of the Company's governing bodies in respect of performance of their duties;
- Amendments to the Company's Articles of Association;
- Issue of bonds, including convertible bonds or bonds with pre-emptive rights, or issue of subscription warrants;
- Sale or lease of the Company's business or any organised part thereof and creation of a limited right *in rem* over them;
- Adoption of resolutions on the Company's merger or transformation;
- Dissolution and liquidation of the Company; and
- Other matters reserved for the General Meeting according to the law or the Articles of Association.

General Meetings may be held as Ordinary or Extraordinary General Meetings. Ordinary General Meetings are held within six months of the end of each financial year. The Ordinary General Meeting may be convened by the Supervisory Board if the Management Board fails to do so by the date stipulated by the law. Extraordinary General Meetings are convened by the Supervisory Board as it sees fit. The Company's shareholders representing at least a half of the Company's share capital are also entitled to convene an Extraordinary General Meeting.

Moreover, shareholders representing at least one twentieth of the Company's share capital may request that an Extraordinary General Meeting be convened and certain items be put on its agenda.

The notice of the General Meeting is published at least twenty six days before the date scheduled for the General Meeting on the Company's corporate website and in a current report in accordance with the Regulations 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 (Journal of Laws, no. 33, item 259, as amended).

A request by a shareholder or shareholders representing at least one twentieth of the share capital to put certain matters on the agenda of the General Meeting should be submitted to the Management Board at least twenty one days before the date of the General Meeting. The request should state the grounds for and a draft resolution pertaining to the proposed item of the agenda. The request may be sent in electronic form.

Any changes to the agenda requested by a shareholder or shareholders representing at least one twentieth of the share capital are announced by the Management Board promptly and in any case within eighteen days prior the scheduled date of the General Meeting. The announcement is published as prescribed for convening the General Meeting.

The General Meeting may only be attended by persons that are the Company's shareholders sixteen days before the date scheduled for the General Meeting.

A person entitled to participate in the General Meeting may obtain a full text of documents to be submitted to the Extraordinary General Meeting and draft resolutions or comments of the Management and Supervisory Boards from the Company's registered office. Also a list of shareholders entitled to participate in the General Meeting is available in the Company's registered office for three weekdays before the date of the General Meeting.

During the General Meeting, each shareholder may propose draft resolutions concerning items put on the agenda.

Shareholders may participate in the General Meeting in person or by proxy. A power of attorney to participate in the general shareholders meeting of a public company and to exercise voting rights must be granted in written or electronic form.

A General Meeting is opened by the Chairperson of the Supervisory Board or a person appointed by them. Failing them, a General Meeting is opened by the President of the Management Board or a person appointed by the Management Board.

The person opening the General Meeting ensures that a ballot is properly conducted, announces a winner and passes the chairing of the General Meeting to the elected Chairperson.

The Chairperson of the General Meeting is elected from among persons entitled to participate in the General Meeting that are recommended by persons entitled to participate in the General Meeting upon their consent, subject to the Extraordinary General Meeting being convened by shareholders representing at least a half of the Company's share capital or at least a half of the total vote at the Company. In such a case, the Chairperson of the General Meeting is elected by such shareholders.

The Chairperson of the General Meeting is elected in a secret ballot and the candidatures are voted on separately. A person who scores the most votes becomes the Chairperson.

The Chairperson presides over the General Meeting in line with the adopted agenda and in compliance with the applicable laws, the Code of Best Practice for WSE Listed Companies, the Articles of Association and the Regulations of the General Meeting.

Upon the election, the Chairperson of the General Meeting signs the attendance list containing the names of all participants of the General Meeting, the number of shares they represent and the number of votes conferred by those shares and then – either in person or through designated secretaries of the General Meeting – prepares the attendance list based on the list of shareholders entitled to participate in the General Meeting.

Any appeals, objections, comments and other matters pertaining to the participation in the General Meeting are submitted to the Chairperson of the General Meeting who resolves them at his/her discretion. Decisions of the Chairperson of the General Meeting may be appealed against to the General Meeting.

A Ballot Counting Committee composed of three members is appointed, unless the General Meeting decides otherwise.

Members of the Ballot Counting Committee are elected from among candidates proposed by the Chairperson or persons entitled to participate in the General Meeting and each shareholder of the Company may propose one candidate.

Members of the Ballot Counting Committee are elected by the General Meeting in a secret ballot and the candidatures are voted on separately in alphabetical order. The Ballot Counting Committee is composed of persons who score the most votes.

Once the attendance list is signed and checked, the Chairperson of the General Meeting puts to vote the agenda determined by the Management Board.

The General Meeting may adopt the proposed agenda as it is, rearrange items placed on the agenda or remove certain matters from the agenda. A resolution not to consider an item included in the agenda may only be

adopted for important reasons. A motion not to consider an item included in the agenda should be justified to the extent ensuring that a resolution in this respect is well informed. A decision to remove an item from the agenda or not to consider an item placed on the agenda at the request of a shareholder of the Company requires a resolution of the General Meeting, subject to prior consent of all the shareholders present who submitted the request.

The Chairperson of the General Meeting may not at their sole discretion remove items from the agenda, rearrange items on the agenda or add any substantive matters to the agenda. Upon presentation of each agenda item, the Chairperson of the General Meeting prepares a list of persons who have registered for discussion and – when the list is closed – opens the discussion giving the floor to speakers in the order in which they registered for discussion.

A decision to close the discussion is made by the Chairperson of the General Meeting.

Once all items on the agenda have been dealt with, the General Meeting is closed by the Chairperson.

36. Changes in basic rules of management of the Issuer's enterprise and its Capital Group

In 2015, the organisational structure of the Company did not change considerably when compared with 2014.

Section 2.2 of this report contains a description of important changes to the Group's organisation.

On 30 June 2015, Mr. Arkadiusz Wierciński resigned from the position of the Management Board Member as of 31 July 2015. To optimize the Company's management, his duties have been taken over by the remaining members of the Company's Management Board ZUE.

OTHER INFORMATION ABOUT ZUE S.A.

37. Human resource management

At 31 December 2015, the Company employed 724 people, including 86 women.

Male and female representation on the Management and Supervisory Board

	2015				2014			
	Management Board		Supervisory Board		Management Board		Supervisory Board	
	Number of people	%	Number of people	%	Number of people	%	Number of people	%
Women	1	20%	1	20%	1	17%	1	20%
Men	4	80%	4	80%	5	83%	4	80%
Total	5	100%	5	100%	6	100%	5	100%

The total number of employees included 267 white-collar workers and 457 blue-collar workers.

Employment structure at ZUE S.A. according to the types of activity in 2015-2014.

Activity	2015	2014
Management and administration	85	89
Sales and marketing	13	14
Production	457	479
Engineers and technicians	169	171
TOTAL	724	753

Employment structure at ZUE according to education in 2015-2014.

Education	2015	2014
Elementary	70	75
Vocational	223	233
Secondary	222	236
Higher	209	209
TOTAL	724	753

Employment structure at ZUE according to age in 2015-2014.

Age	2015	2014
20-30	113	136
>30-40	222	216
>40-50	127	134
>50-60	182	206
>60	80	61
TOTAL	724	753

In 2015, the Company paid the gross remunerations of PLN 54,721 thousand under employment contracts and the gross remunerations of PLN 244 thousand under civil law agreements.

38. Occupational health and safety management

In 2003, ZUE implemented an occupational health and safety management system consistent with OHSAS 18001:1997 to ensure the maximum safety of its employees. In 2012, the Company achieved the OHSAS 18001:2007 certification.

No death or collective or serious accident at work was reported in 2015 at ZUE. The number of workplace injuries did not substantially change when compared with 2014. The inspections carried out in 2015 by the National Labour Inspectorate did not reveal any major deviations from applicable labour laws.

The system is supervised, improved and corrected on an ongoing basis as a result of regular inspections, audits and records of control of all activities by the management of ZUE S.A. The effectiveness of the Integrated Management System has been confirmed by the certificates awarded in January 2015 for the next three years by DNV GL.

Positive effects of occupational health and safety have been produced by:

- A systemic approach to quality, environment and occupational health and safety management;
- Regular occupational health and safety trainings for employees;
- Preventive measures and risks monitoring;
- Regular assessment of workplace and contract risks; and
- Provision of proper facilities and resources to improve work conditions.

39. Quality System Management

ZUE has for many years provided the highest quality services taking account of the safety of its employees and

clients and the needs of the natural environment. This has been confirmed by the implementation and maintenance of the Integrated Management System based on the following standards:

- ISO 9001:2008 – “Quality Management System. Requirements;”
- ISO 14001:2004 – “Environmental Management System. Requirements and Guidelines;”
- OHSAS 18001:2007 – “Occupational Health and Safety Management System.”

The Integrated Management System at ZUE has been developed and implemented through the management of processes construed as a set of means and activities combined to pass from the initial to final state; i.e. from an offer to final acceptance accompanied by the hand over of a facility and final assessment of a task.

The system has been entered into the Integrated Management System Register and documented in line with the system procedures and instructions.

The Integrated Management System includes:

Design, construction, operation and repairs of:

- tram and railway tracks, streets and roads with infrastructure;
- tram, trolleybus and railway traction networks;
- steel and reinforced concrete structures;
- lighting, control and signalling systems;
- power and telecommunications cable and overhead networks and equipment; and
- repair and rental of construction vehicles, machinery and equipment.

By maintaining the Integrated Management System, ZUE strengthens its position of a reliable company able to satisfy the needs of the most demanding customers and reduce the impact of its processes, products and services on the environment and neighbouring community and strictly observe the rules of occupational health and safety imposed both by the law and the Company.

The system is supervised, improved and corrected on an ongoing basis as a result of regular inspections, internal and external audits and records of control of all activities by the management of ZUE S.A. The effectiveness of the Integrated Management System has been confirmed by the certificates awarded in January 2015 for the next three years by DNV GL.

40. Employee share scheme control system

ZUE has no employee share scheme control system.

41. Preparation basis

This Report on Activities of ZUE Between 1 January – 31 December 2015 contains the information whose scope has been set out in § 91 and § 92 of the Regulations 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 “Regulation”).

The financial statements of the Company and the Group for the financial year 2015 have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (the “IFRS”). The IFRS include the standards and interpretations approved of by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the “IFRIC”).

The annual report including the abovementioned financial statements and this report has been prepared on the basis of Section 1.3 and Section 2 of § 82 of the Regulation.

42. Major research and development projects

ZUE's core business does not require it to engage in any basic research or development projects.

43. Appointment of entity authorised to audit financial statements

On the basis of a resolution passed by the Company's Supervisory Board on 5 June 2014, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, al. Jana Pawła II 19, 00-854 Warsaw, was appointed to audit the separate and consolidated financial statements of ZUE for the financial years 2014-2016

The agreement for the audit of the separate and consolidated financial statement of ZUE for the 12 months ended 31 December 2015 and the review of the abbreviated semi-annual consolidated and separate financial statements of ZUE was concluded with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. on 28 July 2014. The remuneration payable to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for the audit and review of the financial statements in 2015 was set at PLN 130 thousand. The remuneration payable to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for the audit and review of the financial statements in 2014 was also set at PLN 130 thousand.

44. Court proceedings

At 10 March 2016, ZUE S.A. was a party to the pending court proceedings concerning the Company's claims and liabilities of the total value of PLN 43,599,835.01; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities was PLN 9,686,338.37 and the total value of the proceedings concerning claims was PLN 33,913,496.64.

The pending court proceedings were related to Company's operating activities.

Court cases have been described in detail in the consolidated financial statements.

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

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

STATEMENTS BY THE MANAGEMENT BOARD OF ZUE S.A.

46. Statement on compliance

The Management Board of ZUE state that according to their best knowledge, the annual separate financial statements of the Company for 2015 and the comparable data have been prepared in accordance with applicable accounting principles and give a true and fair view of the financial position of the Company and its financial performance. The report on activities contains a true view of the Company's development and achievements and the Company's standing, including the description of fundamental risks and threads.

47. Statement on appointment of auditor

The Management Board of ZUE state that the entity responsible for the audit of the annual separate financial statements of ZUE for 2015 was appointed pursuant to applicable laws. The entity authorized to audit the financial statements and chartered auditors involved in the audit met the requirements necessary to make an unbiased and independent opinion on the audited annual financial statements in accordance with applicable laws and professional standards.

