



REPORT ON ACTIVITIES OF ZUE S.A.

between 1 January 2016 and 31 December 2016

Cracow, 13 March 2017

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Abbreviations and definitions:

ZUE, Company, Issuer	ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,757,520.75 paid up in full. Parent company of the ZUE Capital Group.
BPK Poznań	Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 5,866,600 paid up in full. Subsidiary of ZUE.
Railway gft	Railway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full. Subsidiary of ZUE.
RTI	Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 225,000 paid up in full. Subsidiary of ZUE.
RTI Germany	Railway Technology International Germany GmbH with registered office in Hamburg, Germany, entered into the German Register of Entrepreneurs (<i>Handelsregister B, HRB</i>) maintained by the District Court in Hamburg (<i>Amtsgericht Hamburg</i>) under entry number HRB 125764. Share capital of EUR 25,000 paid up in full. Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
ZUE Group, Capital Group	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish zloty.
EUR	Euro.

Share capital details as at 31 December 2016.

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 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.

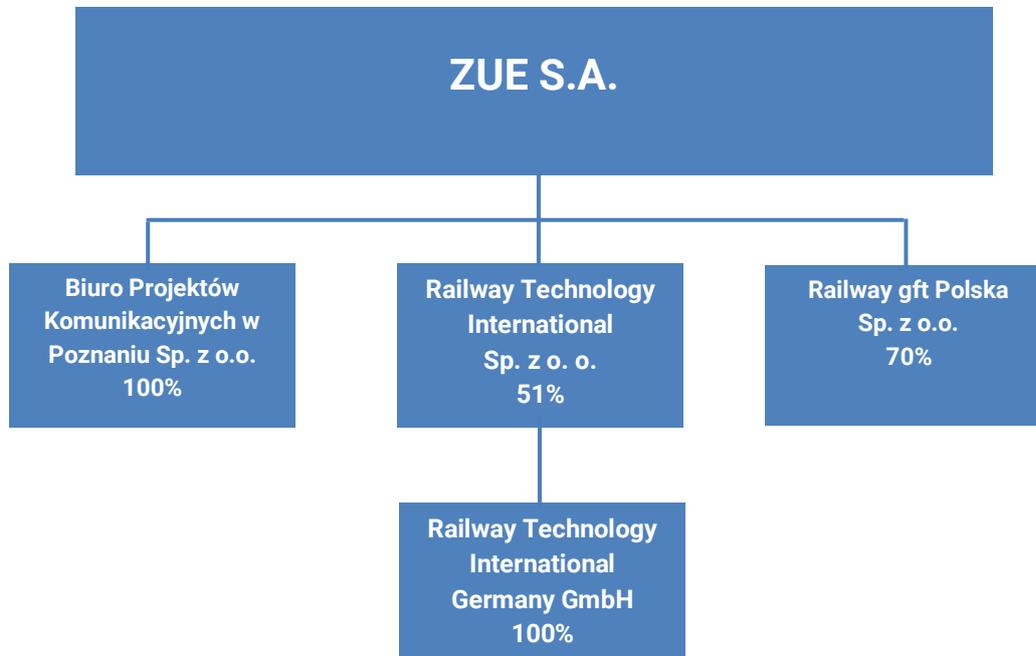
Subsidiary (indirectly through RTI) – Railway Technology International Germany GmbH has been established under the deed of 8 May 2012 in the Notary's Office in Radebeul, Rathenaustrasse 6, Germany (no. 1090/2012). Hamburg (Germany) is the company's registered office.

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 2016 and on the date of the approval of this report.



The companies whose financial results were consolidated with a full method in 2016 include:

- Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.; and
- 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 are not consolidated as at 31 December 2016.

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

RTI

On 22 January 2016, the Extraordinary Shareholders Meeting of RTI resolved to increase the share capital of RTI from PLN 50,000 to PLN 225,000 through the creation of 3,500 new shares with a par value of PLN 50 each. All the new shares of the total value of PLN 175,000 were acquired by the existing Shareholders (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. The increase of the share capital of RTI was entered into the National Court Register on 31 March 2016.

3. Sales markets

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

- PKP Polskie Linie Kolejowe S.A. – the following contracts were performed by ZUE:
 - Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: “Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III;”
 - Upgrade of the 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 switches 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;”
 - 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;
 - 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;
 - 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;
 - Completion of construction works relating to the replacement of track structure with accompanying works on the Kluczbork - Poznań railway line no. 272, the Poznań Starołęka station, the Poznań Starołęka - Poznań Główny route, the Poznań Główny station, track no. 1 and 2, between 194,638 km and 200,524 km as part of the following project: “Structure replacement with accompanying works on the Kluczbork - Poznań railway line no. 272, the Kórnik - Poznań Główny section, and reconstruction of steel bridge on the Warta river at the Poznań Starołęka station at 196,254 km;”
 - Upgrade of the railway line no. 62 on the Dąbrowa Górnicza Strzemieszyce – Sosnowiec Dańdówka section as part of the following project: “Services in the railway lines no. 62 and 660 on the Tunel – Bukowno – Sosnowiec Płd section;”
 - Design and construction services in connection with the following project: “Preparation of documentation and completion of construction works on the Skarżysko Kamienna – Suchedniów section, railway line no. 8” as part of the following project: “Upgrade of the Radom - Kielce railway line no. 8;”
 - Design and construction services in connection with the following project: “Works on the line no. 7 of the Lublin - Dorohusk section – stage I” performed as part of the following project: “Works on the line no. 7 of the Lublin - Dorohusk section;”
 - Design services and completion of power works in connection with the following project: “Works on the Poznań Wschód – Dziarnowo line no. 353, the Mogilno – Kołodziejewo – Janikowo section;”
 - Completion of construction works on the Ostrowite – Biskupiec Pomorski and Biskupiec Pomorski – Jamielnik routes as part of the following project: “Works on the line no. 353 of the Jabłonowo Pom - Iława - Olsztyn – Korsze section.”

- Tramwaje Warszawskie Sp. z o.o. – the following contracts were performed by ZUE:
 - Reconstruction (upgrade) of tramway on the Dworzec Wileński - Żerań Wschodni section;
 - Reconstruction of tram tracks in the intersection of Połczyńska and Powstańców Śląskich Streets in Warsaw;
 - Construction of tram line to Tarchomin – stage II.
- Gmina Miejska Kraków [*the City of Cracow*] represented by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie – contracts performed as part of infrastructure maintenance agreements: “Maintenance and repair of tram infrastructure in Cracow in the period 2015 – 2018 and Maintenance of street lighting infrastructure in Cracow.
- Tramwaje Szczecińskie Sp. z o.o. – completion of construction works involving the reconstruction of office and administration building and necessary technical infrastructure on the plot no. 2/1 district 2029 of Tramwaje Szczecińskie Spółka z o.o. at al. Wojska Polskiego 200 in Szczecin.
- Miejskie Przedsiębiorstwo Komunikacyjne S.A. w Krakowie – the services including, in particular, the performance of the following contract: Construction of a new depot for the underfloor wheel lathe and accessory equipment.

Apart from its operations on the Polish market, the Company participates in tenders abroad. The Group’s intention is, in particular, to win contracts on the EU markets. The Company has submitted bids on the Latvian and Serbian markets and efforts are made to win a contract in Slovakia.

4. Reliance on clients

In 2016, ZUE operated as independent contractor, consortium leader or partner as well as subcontractor. The structure of ZUE’s client base reflected the nature of the services sold by the Company by way of tenders and/or trade negotiations.

ZUE’s major client in 2016 included PKP Polskie Linie Kolejowe S.A. whose payables to ZUE accounted for 66.5% of the Issuer’s total figure. There are no formal links between PKP Polskie Linie Kolejowe S.A. and ZUE. Tramwaje Warszawskie Sp. z o.o. had a 12.7% share in the Company’s revenue and ranked second. Another client with a 10.7% share in total receivables was included in the group of clients managing urban infrastructure. ZUE is not formally linked to any of the clients whose share in total receivables is more than 10%.

5. Supply sources

ZUE cooperates with the Polish providers of construction services, goods and materials and complements the offer with materials supplied by the EU companies. 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. According to the Group’s strategy, materials were sold in 2016 by its subsidiary, Railway gft. They accounted for 26% of the goods and services purchased by ZUE and 76% of the goods and services sold by Railway gft.

6. Order book

At this report preparation date, the net value of the Company's book of orders for construction and assembly services is PLN 598m and provides it with an ability to provide the services in the period 2017-2020.

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

- Maintenance and repair of tram infrastructure in Cracow in the period 2015-2018. Net value attributable to ZUE is PLN 42,590 thousand;
- Design and completion of construction works as well as modernisation services on the Cracow – Medyka – state border railway line, Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, Cracow – Rzeszów section, stage III." Total net value attributable to ZUE is PLN 180,886 thousand;
- Upgrade of the railway line no. 273 on the Głogów - Zielona Góra - Rzepin - Dolna Odra section. Reconstruction of tracks, platforms and viaduct in the Zielona Góra station. Net value attributable to ZUE is PLN 36,585 thousand;
- Construction works on Kościelniki – Podłęże line no. 95. Net value attributable to ZUE is PLN 27,352 thousand;
- Provision of design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: "Investment project at the Medyka - Mościska II border crossing." Net value attributable to ZUE is PLN 41,461 thousand;
- Provision of design services and completion of works in connection with the following project: "Preparation of documentation and completion of construction works on the Skarżysko Kamienna – Suchedniów section, railway line no. 8" as part of the following project: "Modernisation of Radom – Kielce railway line no. 8. Net value attributable to ZUE is PLN 25,807 thousand;
- Completion of construction works on the Ostrowite – Biskupiec Pomorski and Biskupiec Pomorski – Jamielnik routes as part of the following project: "Works on the line no. 353 of the Jabłonowo Pom - Iława - Olsztyn – Korsze section." Net value attributable to ZUE is PLN 27,882 thousand;
- Provision of design services and completion of construction works in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of 2014 – 2020 Infrastructure and Environment Operational Programme (IEOP). Net value attributable to ZUE is PLN 124,500 thousand;
- Provision of design services and completion of construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section)." Net value attributable to ZUE is PLN 52,700 thousand;
- Provision of design services and completion of works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola." Net value attributable to ZUE is PLN 281,000 thousand.

The value of the construction contracts signed in 2016 is approx. PLN 318m. The total value of the construction contracts signed by the Company between the beginning of 2017 and this report publication date is approx. PLN 471m. The expected remuneration for the Company in connection with the tenders in which it has submitted the lowest price bids, either independently or as a consortium member, is approx. PLN 1019m. Nonetheless, the Issuer participates (either independently or as a consortium member) in a dozen of tender procedures for the estimated total amount of approx. PLN 4.1bn.

7. Strategic objectives of ZUE

The Company's strategic objectives include:

- Maintenance of the position of the Group as one of the leaders of the urban transport infrastructure construction market;
- Strengthening of its position on the rail transport infrastructure construction market;
- Development of power construction services relating to the upgrade of LV, MV and HV power lines;
- Strengthening of its position on the transport system design market;
- 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 Group is to expand its offer to include the service and maintenance of urban and rail infrastructure.

8. Development prospects

The infrastructure construction industry is waiting for the outcome of tenders financed from the EU perspective for the years 2014–2020. Poland may receive approx. EUR 82bn 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 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.

Selected plans of Polish cities concerning the construction and upgrade of tramways until 2020¹

- Warsaw is planning to construct approx. 21 km of tramway and depot;
- 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. 9 km and upgrade approx. 9 km of tramway;
- Silesian cities are planning to construct approx. 20 km and upgrade approx. 100 km of tramway;
- Łódź is planning to upgrade approx. 11 km of tramway and depot;
- Olsztyn is planning to construct approx. 10 km of tramway;
- Wrocław is planning to construct approx. 15 km of tramway;
- Gorzów Wielkopolski is planning to construct approx. 3 km and upgrade approx. 10 km of tramway including depot.

In 2017, Łódź, Wrocław, Gorzów Wielkopolski, Cracow, Olsztyn and Bydgoszcz plan to announce tenders for the construction of tram infrastructure for a total amount of approx. PLN 1.2bn.²

¹By mCorporate Finance S.A., <http://www.portalsamorzadowy.pl/>, <http://www.rynekinfrastruktury.pl/>

² Information provided by individual cities about tenders planned in 2017.

Rail infrastructure market

In November 2016, the Government adopted the amended National Railway Programme (“NRP”) providing for projects worth a total of PLN 66.4bn by 2023. 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 292 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 27 km/h. In contrast, the average figure for the total EU is approximately 50 km/h, with about 60 km/h for Germany and France.

The NRP includes plans to reconstruct 9000 km of railway lines.

NRP’s specific objectives:³

- 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 provincial cities to rail lines with the average speed of passenger trains 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 upgraded level crossings and reducing the number of accidents at level crossings:
 - 2000 km – length of railway lines fitted with ETMS/ETCS.

An important objective of the NRP is to increase the capacity of infrastructure serving sea ports in Gdańsk, Gdynia, Szczecin and Świnoujście. The intended projects will increase the network capacity, improve the competitiveness of freight transport and shorten the time of freight transport as a result of which the significance of the Polish ports will increase.

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:⁴

- 1) Warsaw is planning to reconstruct the cross-city line and upgrade the ring rail line. The plans include the conversion of three railway stations and the construction of two new stations;
- 2) 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 will be built;
- 3) Wrocław is planning to build new stations within the urban area and upgrade the railway line from Wrocław to Głogów;

³ National Railway Programme until 2023.

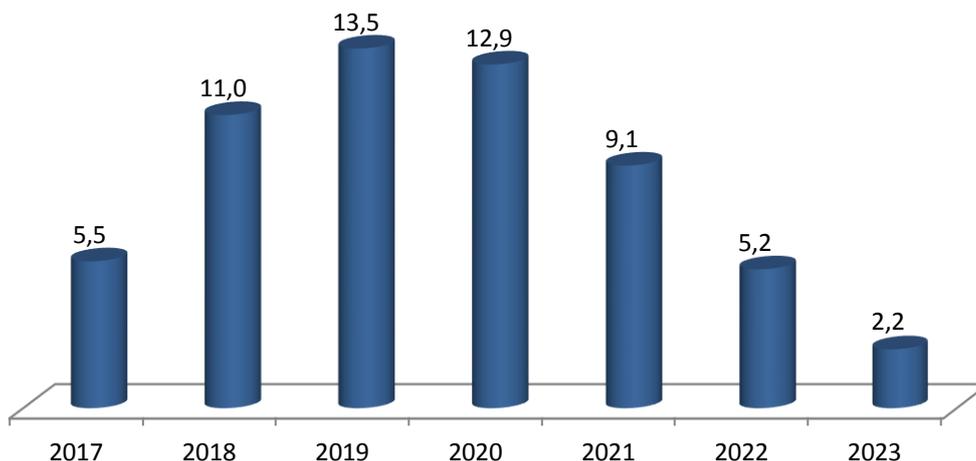
⁴ <http://www.rynek-kolejowy.pl/wiadomosci/plk-inwestuja-w-linie-aglomeracyjne-75274.html>

- 4) 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;
- 5) 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 the Wrocław – Poznań line to ensure better access from Leszno.

In the EU perspective for the years 2014-2020, it has been declared that the amount of approx. PLN 42.8bn will be allocated to the Polish railways out of which, approx. PLN 40bn will be received by PKP PLK. 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). The remainder will be financed from the state budget, PKP PLK's own funds and the Railway Fund.

The European Commission approved all the seventeen applications submitted by PKP PLK in the first and second round of the CEF call for proposals. In the framework of the EU financial perspective for 2014-2020, PKP PLK has received subsidies in the total amount of PLN 13bn. PKP PLK is in the process of applying for funding of another five projects under the third round of the CEF call for proposals. The projects proposed under the second round are on PKP's standby list.

Planned expenditure of PKP PLK S.A. until 2023 (PLN bn)



Source: National Railway Programme until 2023 (page 31)

In 2017, PKP PLK plans to announce tenders worth approx. PLN 7bn and sign contracts for the projects worth approx. PLN 20-22bn. At the end of 2017, PKP PLK intends to have contracts underway whose value will amount to approx. PLN 27bn; i.e. approx. 40% of NRP.⁵

In November 2016, PKP PLK announced changes developed in cooperation with contractors. They are to streamline the execution of railway projects. The most important changes include advance payments for partial completion of a project, down payments for the purchase of building materials and a shift in focus from price to quality when selecting a contract engineer.⁶

Power infrastructure market

⁵ http://budownictwo.wnp.pl/pkp-plk-chca-miec-na-koniec-roku-umowy-za-okolo-27-mld-zl,290195_1_0_0.html
<http://www.pap.pl/aktualnosci/news,818429,pkp-plk-chca-do-konca-roku-oglosic-przetargi-za-ok-7-mld-zl.html>

⁶ <http://www.rynek-kolejowy.pl/wiadomosci/merchel-otwieramy-sie-na-wykonawcow-trzy-konkretne-dzialania-79067.html>

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 the 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 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 up to 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 4147 km;
- 2) Decrease in the length of 220 kV lines by 1156 km (decommissioning of 1310 km and construction of new 154 km);
- 3) Increase of the potential for transformation between different voltage levels; and
- 4) Improvement of reactive power adjustment ability.

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 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 a long time of their performance. Thus, a failure of the Company's clients to timely settle their liabilities to the Company directly influences the Company's financial results.

- **Delays or unfavourable outcome of tenders the Company 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 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 Group companies are exposed to price risk.

- **Higher fees charged by subcontractors**

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

- **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 foreign exchange risk as the risk is transferred from a supplier-importer to the Company.

- **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 financial results reported by the Company.

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 rate and the level of the budget deficit. Any negative changes in Poland's macroeconomic situation may pose a risk to the Group's business activity and, consequently, influence ZUE's 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. In addition, changes in VAT launched at the beginning of 2017 including, in particular, reverse charges for several dozen of construction services may result in poorer financial liquidity of construction companies. 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 services**

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

- **Risk related to joint and several liability to subcontractors and consortium members**

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 entered into a contract with a subcontractor is liable on a joint and several basis for the payment for the construction services provided by further subcontractors. In addition, consortium members are liable on a joint and several basis to a contracting authority for the proper performance of their obligations under public procurement contracts. The 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 bonds issued by banks or insurance companies. Moreover, contracting authorities expect longer warranty periods. These contracts also provide for contractual penalties if a deadline for the completion of the tasks specified therein is missed. The 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 payment to further subcontractors or the failure to perform a contract by a consortium member. In addition, it would have to cover the cost of the tasks or supplies, which have not been completed by a bankrupt. If the Group's client/contracting authority go bankrupt, the Group may not receive remuneration for the performed services. These factors could have a negative influence on the financial results reported by the Company.

- **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 (its client) up to the amount of remuneration payable under a contract and other agreements. The failure to provide a satisfactory payment guarantee creates an obstacle to the completion of construction works through the fault of the 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[4]§3 of the Polish Civil Code. Consequently, costs may increase and the execution of construction projects may be delayed or even made impossible. This could have a negative impact on the 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**

The Company participates in public tenders and includes target contracts in its financial plans. A risk that a decision will be unfavourable or the tender will be cancelled by a contracting authority cannot be excluded. In addition, the announcing of tenders or awarding contracts by contracting authorities may be delayed. Another risk includes, for instance, a consortium partner's failure to maintain their bid (extend the bid bond) as a result of which a contract with a specific investor could not be signed and consequently, potential revenue would be lost.

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

Pursuant to the Public Procurement Act, tender participants are able to appeal against illegal appointment of a contractor by a contracting authority or to appeal to the court against the decision issued by the authority hearing the appeal made in public procurement proceedings. Consequently, the date of signing a contract with an investor may be substantially postponed. Moreover, the circumstances may occur in which the 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 Group is exposed to interest rate risk mainly because it uses such instruments as bank loans and leases. These instruments are based on variable interest rates and expose the Group to financial risk.

- **Risk related to weather conditions**

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

- **Risk related to greater employments costs**

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

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

11. Major events

Construction contracts

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

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

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

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

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

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

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

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

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

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

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

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

received from PKP PLK a signed annex to the contract for design services 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" (the Contract). Under the said annex, the Contract completion date was extended by not more than 91 months of the commencement date (not more, however, than by 24 May 2018). **(Current report 39/2016)**

On 3 October 2016, ZUE and PKP PLK signed a contract for the following project: "Completion of construction works on the Ostrowite – Biskupiec Pomorski and Biskupiec Pomorski – Jamielnik routes" as part of the following project: "Works on the line no. 353 of the Jabłonowo Pom - Iława - Olsztyn – Korsze section." The Company informed about the submission of the lowest price tender in the current report 36/2016 and the selection of the Company's tender as the most advantageous offer in the current report 44/2016. The contract net value was PLN 29.0m (including the provisional sum of 4% of the contract net value of PLN 1.1m). The contract gross value was PLN 35.7m. The project completion date (final acceptance) was set for 5 October 2017. The total value of the contracts entered into between 29 July 2016 and 3 October 2016 between the companies comprising the ZUE Capital Group and the companies comprising the PKP PLK Capital Group was PLN 47m. **(Current report 47/2016)**

On 14 October 2016, ZUE and PKP PLK entered into a contract for design and construction services and purchase of land in the area of the Medyka station in connection with the following project: "Investment project at the Medyka - Mościska II border crossing." The Company informed about the submission of the lowest price tender in the current report 40/2016 and the selection of the Company's tender as the most advantageous offer in the current report 43/2016. The contract net value was PLN 41.5m. The contract gross value was PLN 51.0m. The project completion date (completion of all works specified in the contract) was set for 1300 days of the contract conclusion date but not later than 20 May 2020. **(Current report 49/2016)**

On 7 November 2016, the consortium of the Company and Dalekovod Polska S.A. (the "Consortium") agreed to terminate the contract with Polskie Sieci Elektroenergetyczne S.A. The contract provided for the execution by the Consortium of the following project: "Construction of the double track 400 kV Kozienice – Ołtarzew." The said agreement (the "Agreement") came into force on the date it was signed by the parties. Under the Agreement, the issues relating to the settlement of the Contract as well as the claims relating to its performance and termination were settled amicably by the parties. **(Current report 55/2016)**

On 25 November 2016, the Company learnt about the submission by the consortium of ZUE S.A. (Leader) and PORR Polska Infrastructure S.A. of the lowest price tender in the tender procedure for: "Preparation of design documentation and obtaining necessary administrative decisions as well as the construction of KST tram line, stage III (os. Krowodrza Górka – Górka Narodowa) and a two-level interchange along the Opolska Street in Cracow together with accompanying road infrastructure." Net value of the tender submitted by the consortium was PLN 206.0m and the expected remuneration attributable to the Company was approx. 50% of the net value. Gross value of the tender submitted by the consortium was PLN 253.4m. The project completion date was set for 30 months of the contract conclusion date. **(Current report 57/2016)**

On 19 December 2016, the Company learnt about the selection by PKP PLK of the tender submitted by the consortium of ZUE S.A. (Leader), Przedsiębiorstwo Inżynieryjne IMB-Podbeskidzie sp. z o.o. and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. as the most economically advantageous offer in the tender procedure for the completion of design services and construction works in connection with the following project: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow." Net value of the tender submitted by the consortium was PLN 145.5m and the expected remuneration attributable to the Company was 34% of the net value. Gross value of the tender submitted by the consortium was PLN 179m. The project completion date was set for 31 December 2019. The tender opening procedure took place on 28 October 2016 and the tender submitted by the consortium ranked second. The first place tender was subsequently excluded from the Tender Procedure by ZIKiT w Krakowie as the tender price was grossly low. Consequently, the consortium's tender was selected as the most economically advantageous offer. **(Current report 62/2016)**

Following the conclusion on 28 December 2016 of a contract between the Company and Wizbud sp. z o.o. for the completion by Wizbud sp. z o.o. of track works, the total net value of contracts entered into in the past 12 months between the Company and Wizbud amounted to PLN 24.3m. **(Current report 63/2016)**

Financial agreements

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

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

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

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

In connection with the Agreement, on 29 June 2016, the Company signed an annex to the cooperation agreement for the Company's use of the Bank's products and services to finance the Company's day-to-day operations (the Annex). The Company informed about the cooperation agreement in the current report 98/2015 of 22 December 2015 and previous reports. Under the Annex, the Company was granted the right to use the products until 20 July 2017 as part of the limit reduced from PLN 90m to PLN 40m. In addition, the Annex dealt with a change in sublimits. Excluding the abovementioned Agreement and the Annex, the total value of the agreements between the companies comprising the ZUE Capital Group and the Bank concluded in the 12 months preceding the conclusion of the Agreement and the Annex was approx. PLN 13m. **(Current report 35/2016)**

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

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

On 19 October 2016, an agreement was entered into with TUIR Allianz Polska S.A. of Warsaw (the Guarantor) for the provision of project-related bonding products under a revolving facility up to PLN 30m until 30 September 2017. Under the agreement, the bonding products (bid bonds, performance bonds and defects liability bonds) would be provided by the Guarantor to the Company for the benefit of the entities specified by the Company. **(Current report 52/2016)**

Corporate events

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

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

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

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

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

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

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

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

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

Other events

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

Following the acceptance on 28 July 2016 by Railway gft of the Company's order for the supply of building materials, the total value of orders/contracts entered into between the Company and Railway gft since 17 May 2016 was PLN 22.2m. **(Current report 38/2016)**

On 23 September 2016, the Company learnt about the proceedings instigated against the Company. The Company was sued by Elektrobudowa S.A. with registered office in Katowice (the "Petitioner") for approx. PLN 24.8m on the grounds of unjust enrichment. The proceedings were instigated based on a lawsuit filed on 1 September 2016 in the District Court of Łódź. The District Court of Cracow had jurisdiction over the said proceedings. On 26 September 2016, the Company learnt about the lawsuit of 21 July 2016 filed by the Petitioner in the District Court of Szczecin. The lawsuit concerned the same claim and was subsequently withdrawn by the

Petitioner from the abovementioned Court. The Company was also informed by the District Court of Łódź that the lawsuit referred to in the current report 45/2016 had also been withdrawn by the Petitioner. The Issuer maintained that the Petitioner's claim presented in the current report 45/2016 was ungrounded. **(Current reports 45/2016, 46/2016)**

Following the conclusion on 14 October 2016 by the Company and Railway gft (subsidiary) of a contract for the supply of building materials, the total value of contracts entered into with Railway gft since 29 July 2016 amounted to PLN 24.3m. **(Current report 51/2016)**

On 29 November 2016, the Issuer and ZPS sp. z o.o. signed a contract for the manufacture and supply of 10 TMS-40.01 wagons and one conveyor for coupling the wagons with RM80 UHR ballast cleaning machine. The contract net value: PLN 14.6m. The supply date was set at 8 months of the contract conclusion date.

On 1 December 2016, the Company and Elektrobudowa S.A. of Katowice (Elektrobudowa) reached the settlement whereby any and all disputes between the Company and Elektrobudowa (the "Parties," the "Contractors") relating to the project named "Construction of the *Franowo* tram depot in Poznań" (the "Project") would be resolved finally and amicably. The said Project was executed on the basis of a contract entered into with Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu (the "Contracting Authority") on 13 July 2011. According to the settlement, the Company paid Elektrobudowa the total amount of PLN 26.5m including the remuneration for the services provided by Elektrobudowa in connection with the Project transferred by the Contracting Authority to the Company's bank account specified in the public procurement contract of PLN 24.8m and the amount drawn by the Issuer under the counter-guarantee issued at the request of Elektrobudowa of PLN 1.7m. In addition, the Parties were obliged to cooperate in order to resolve any disputes with the Contracting Authority and finally settle the Project. **(Current report 58/2016)**

Following the acceptance on 13 December 2016 by Railway gft of the Company's order for the supply of building materials, the total value of contracts entered into with Railway gft since 15 October 2016 amounted to PLN 21.9m. **(Current report 59/2016)**

Following the acceptance on 30 December 2016 by MORIS sp. z o.o. of an order for the supply of rails to Railway gft, the total value of contracts entered into in the 12 months between Railway gft and MORIS sp. z o.o. amounted to PLN 50m. **(Current report 65/2016)**

12. Major events after the end of the reporting period

The Company presents the events which took place after the end of the reporting period:

On 3 January 2017, the Company learnt about the Company's submission of the lowest price tender in the tender procedure for design and construction services in connection with the Infrastructure and Environment Operational Programme (*POIiŚ*) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section." Net value of the tender submitted by the Company: PLN 173m. Gross value of the tender submitted by the Company: PLN 213.8m. The project completion date: 28 months of the contract conclusion date. **(Current report 1/2017)**

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

On 20 January 2017, the consortium of Trakcja PRKil S.A. (Leader), COMSA S.A., ZUE S.A., STRABAG sp. z o.o. and STRABAG Rail a.s entered into the design and construction contract with PKP PLK in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of the Infrastructure and Environment Operational Programme (IEOP) 5.2-

5. The Company informed about the submission of the lowest price tender for the said project and the selection of the most economically advantageous tender in the current report 50/2016 and the current report 56/2016, respectively. The contract net value: 373.7m. The contract gross value: PLN 459.7m. The expected net remuneration attributable to the Company: PLN 124.5m. The project completion date: 30 months of the contract conclusion date. **(Current report 4/2017)**

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

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

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

On 13 February 2017, the Company learnt about the selection by PKP PLK of the tender submitted by the consortium of ZUE S.A. (Leader), Budimex S.A., Strabag sp. z o.o., Strabag Rail GmbH, Strabag Rail a.s, and Strabag Általános Építő Kft. as the most economically advantageous offer in the tender procedure for the completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF) EU financial instrument. The Company informed about the submission of the lowest price tender in the said tender procedure in the current report 60/2016. Net value of the tender submitted by the consortium: PLN 560.0m. The expected remuneration attributable to the Company: 34% of the net value. Gross value of the tender: PLN 688.8m. Project completion date: 42 months of the contract conclusion date. **(Current report 8/2017)**

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

On 17 February 2017, the consortium of Budimex S.A. (Leader), STRABAG sp. z o.o., STRABAG Rail a.s, STRABAG Rail GmbH, STRABAG Általános Építő Kft. and ZUE S.A. (the "Consortium") signed the design and construction contract with PKP PLK for the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia - Warszawa Gdańska section)." The Company informed about the selection of the consortium's tender as the most economically advantageous offer in the current report 53/2016. Net value of the

contract: PLN 159.7m. The expected net remuneration attributable to the Company: PLN 52.7m. Project completion date: 26 months of the commencement of works. **(Current report 10/2017)**

On 23 February 2017, the Company informed that that the 90-day period of being bound by the tender had expired on 22 February 2017. The said tender was submitted in the tender procedure for the following project: "Preparation of design documentation and obtaining necessary administrative decisions as well as the construction of KST tram line, stage III (os. Krowdrza Górka – Górka Narodowa) and a two-level interchange along the Opolska Street in Cracow together with accompanying road infrastructure" (the "Project"). The Company informed about the submission of the lowest price tender in the current report 57/2016. At the request of the Contracting Authority; i.e. Zarząd Infrastruktury Komunalnej i Transportu w Krakowie, the Company intended to approve by the date specified by the Contracting Authority; i.e. 22 February 2017, of the extension of the said 90-day period by 60 days and extend the expiry date of the bid bond on part of ZUE. Therefore, ZUE (the Consortium Leader) asked PORR Polska Infrastruktura S.A. (the Consortium Member) to give their analogous approval necessary to extend the 90-day period for the entire Consortium and the expiry date of the bid bond on part of PORR Polska Infrastruktura S.A. PORR Polska Infrastruktura S.A. failed to give their approval to the said extension and to provide their part of the bid bond by the date specified by the Contracting Authority; i.e. 22 February 2017. Consequently, the Consortium Member stopped their efforts to win the contract for reasons unrelated to the Company. The Consortium Member's failure to give their approval and to provide their part of the bid bond prevented the Consortium from participation in the tender procedure. **(Current report 11/2017)**

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

On 2 March 2017, the Company learnt about the acceptance on the same day by Wytwórnia Podkładów Strunobetonowych S.A. with registered office in Mirosław Ujski (WPS) of an order for the supply of prestressed concrete sleepers to the Issuer's subsidiary; i.e. Railway gft Polska sp. z o.o. Consequently, the total net value of orders/contracts entered into in the past 12 months between Railway gft and WPS amounted to approx. PLN 34m. **(Current report 13/2017)**

On 6 March 2017, the Company learnt about the acceptance by Track Tec S.A. with registered office in Warsaw (Track Tec) of an order for the supply of prestressed concrete sleepers to the Company. Consequently, the total net value of orders/contracts entered into in the past 12 months between the Group companies and Track Tec amounted to approx. PLN 21.7m. **(Current report 14/2017)**

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

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

On 13 March 2017, the Company and PKP PLK entered into the design and construction contract for the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current report 48/2016 and the current report 64/2016, respectively. The contract net value: PLN 281m. The contract gross value: PLN 345.6m. The project completion date: 38 months of the commencement of works. **(Current report 17/2017)**

13. Transactions with related entities

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

Section 5.36 "Transactions with related entities" of the separate financial statements contains detailed information about transactions with related entities.

14. Bonds and guarantees

The activities 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 granted to the Group companies and the use thereof as at 31 December 2016.

Item	Limit granted [PLN '000]	Limit used by ZUE [PLN '000]	Limit used by BPK Poznań [PLN '000]	Total limit used [PLN '000]	Remaining balance [PLN '000]
Insurance companies					
WARTA*		5,572	12	5,584	0
EUROPA	10,000	6,395		6,395	3,605
EULER HERMES	35,000	988	15	1,003	33,997
KUKE	30,000	299	1,335	1,634	28,366
GENERALI	42,100	12,411	0	12,411	29,689
PZU	90,000	26,837	84	26,921	63,079
GOTHAER	10,000	4,849		4,849	5,151
ERGO HESTIA		24,869		24,869	
ALLIANZ		946		946	
Including Allianz as part of the limit**	30,000	235		235	29,765
Total limits with insurance companies	247,100	83,166	1,446	84,612	193,652
BANKS					
mBank S.A.		61,000		61,000	
<i>Including the limit granted under the Cooperation Agreement ***</i>	25,000	13,687		13,687	11,313
<i>Including the limit granted under the Master Agreement</i>	70,000	37,943		37,943	32,057
Bank BGŻ BNP Paribas S.A.		49,465		49,465	
<i>Under bond line</i>	3,500	255		255	3,245
<i>Under bond line agreement</i>	70,000	35,899		35,899	34,101
Bank Millennium S.A.		492		492	
Total limits with banks	168,500	110,957	0	110,957	80,716
TOTAL	415,600	194,123	1,446	195,569	274,368

** As a result of the new strategy concerning the provision of bonds, the provision of new bonds to the Company has been stopped by TUIR WARTA S.A. since 22 January 2016 until the limit falls below PLN 4m.*

*** New limit. Agreement signed on 19 October 2016.*

**** According to the Cooperation Agreement no. 07/052/14/Z/XP, ZUE was granted by mBank SA a maximum limit of PLN 40m. Product sublimits were created including: a) sublimit for bonds up to PLN 25m; b) sublimit for non-revolving working capital facilities up to PLN 30m. The total amount of ZUE's liabilities to the bank must not exceed the maximum limit of PLN 40m.*

The value of unused bond lines at the end of 2016 amounted to PLN 274,368 thousand (separate accounts).

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities.

Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the guarantees as at 31 December 2016 amounted to PLN 15,709 thousand.

The value of guarantees provided by ZUE to secure the transactions entered into by subsidiaries was PLN 1,547 thousand.

As part of their operations, the Group companies are provided by their subcontractors with performance bonds and defects liability bonds in the form of bonds provided by banks and insurance companies or bills of exchange. They are also provided to secure the subject matter of contracts (e.g. the supply of switches). The Company's contingent assets as at 31 December 2016 amounted to PLN 31,853 thousand. The Group's contingent assets as at 31 December 2016 amounted to PLN 32,258 thousand.

FINANCIAL INFORMATION

15. 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 2016 and the comparative data of 2015.

Item (PLN '000)	31-12-2016	31-12-2015	Change	% change
Revenue	311,086	509,586	-198,500	-39%
Cost of sales	297,235	463,592	-166,357	-36%
Gross profit (loss)	13,851	45,994	-32,143	-70%
General and administrative expenses	16,323	17,609	-1,286	-7%
Other operating income	4,973	5,991	-1,018	-17%
Other operating expenses	1,758	6,535	-4,777	-73%
Gain on bargain purchase	0	0	0	0%
Operating profit (loss)	743	27,841	-27,098	-97%
Financial income	2,665	853	1,812	212%
Financial expenses	1,080	7,849	-6,769	-86%
Pre-tax profit (loss)	2,328	20,845	-18,517	-89%
Corporate income tax	848	5,496	-4,648	-85%
Net profit (loss)	1,480	15,349	-13,869	-90%

The Company's revenue for the financial year 2016 was PLN 311,086 thousand and fell by 39% when compared with the analogous period of 2015. Lower revenue reported by the Company in 2016 was mainly a result of a sharp and anticipated downturn in the rail and urban infrastructure market. ZUE carried out lower value contracts in the reporting period and a smaller number of orders contributed to lower margins. In addition, the Management Board's decision to maintain the Company's operating capacity while waiting for the performance of contracts financed under the "second EU perspective" had a negative influence on gross margin.

A release of the provision for the risks relating to the settlement of the contract named "Construction of the FRANOWO tram depot in Poznań" of PLN 9m had a positive influence on gross margin. The Company informed about the release in the current report 7/2017.

The Company's general and administrative expenses amounted in 2016 to PLN 16,323 thousand and decreased by 7% compared to 2015.

In 2016, the Company's other operating income stood at PLN 4,973 thousand. The item was mainly influenced by a release of the provision of PLN 1,500 thousand created in 2012 in connection with the agreement between ZUE (legal successor of Przedsiębiorstwo Robót Komunikacyjnych S.A.) and Przedsiębiorstwo Komunikacji Miejskiej w Tychach and write-downs of receivables of PLN 1,966 thousand. Other operating expenses totalled PLN 1,758 thousand and decreased year-on-year by 73%.

Financial income in the period 1 January – 31 December 2016 amounted to PLN 2,665 thousand and increased year-on-year by 212%. Financial expenses stood at PLN 1,080 thousand – an 86% decrease compared to 2015.

16. Discussion of major items of the statement of financial position

The table below sets out the main items of the separate statement of financial position reported by the Company at 31 December 2016 and the comparative data at 31 December 2015.

Item (PLN '000)	31-12-2016	31-12-2015	Change	% change
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	80,335	77,985	2,350	3%
Investment property	7,349	7,822	-473	-6%
Intangible assets	9,119	9,638	-519	-5%
Goodwill	31,172	31,172	0	0%
Investments in subordinates	210	239	-29	-12%
Advance payments for investments in subsidiaries	0	0	0	
Long-term receivables	0	0	0	
Retentions on construction contracts	6,819	5,288	1,531	29%
Deferred tax assets	8,465	8,233	232	3%
Other assets	0	0	0	
Total non-current assets	143,469	140,377	3,092	2%
CURRENT ASSETS				
Inventories	6,196	18,368	-12,172	-66%
Trade and other receivables	74,937	73,889	1,048	1%
Retentions on construction contracts	2,101	602	1,499	249%
Current tax assets	0	3,954	-3,954	-100%
Other financial assets	54,935	0	54,935	0%
Other assets	1,198	1,061	137	13%
Loans advanced	289	158	131	83%
Cash and cash equivalents	61,207	169,795	-108,588	-64%
Total current assets	200,863	267,827	-66,964	-25%
TOTAL ASSETS	344,332	408,204	-63,872	-16%
EQUITY AND LIABILITIES				
NON-CURRENT LIABILITIES				
Share capital	5,758	5,758	0	0%
Share premium account	93,837	93,837	0	0%
Treasury shares	-2,690	-2,690	0	0%
Retained earnings	112,718	118,706	-5,988	-5%
Total equity	209,623	215,611	-5,988	-3%
NON-CURRENT LIABILITIES				
Long-term loans and bank credits and other financing sources	8,875	11,155	-2,280	-20%
Retentions on construction contracts	6,717	7,991	-1,274	-16%
Other financial liabilities	0	0	0	
Liabilities under employee benefits	740	697	43	6%
Deferred tax liabilities	0	0	0	
Long-term provisions	7,556	6,942	614	9%
Deferred income	0	0	0	
Other liabilities	630	910	-280	31%
Total non-current liabilities	24,518	27,695	-3,177	-11%
CURRENT LIABILITIES				
Trade and other payables	74,740	112,381	-37,641	-33%
Retentions on construction contracts	9,117	11,668	-2,551	-22%
Short-term loans and bank credits and other financing sources	5,765	6,111	-346	-6%
Other financial liabilities	37	37	0	0%
Liabilities under employee benefits	16,562	21,947	-5,385	-25%
Current tax liabilities	0	0	0	
Short-term provisions	3,970	12,754	-8,784	-69%
Total current liabilities	110,191	164,898	-54,707	-33%
Total liabilities	134,709	192,593	-57,884	-30%
TOTAL EQUITY AND LIABILITIES	344,332	408,204	-63,872	-16%

At the end of 2016, the Company's total assets and liabilities stood at PLN 344,322 thousand and decreased year-

on-year by 16%.

Items with the biggest influence on the said total assets and liabilities at the end of 2016 as compared with the end of 2015:

1) Current assets:

- Decrease in inventories consumed to perform the contracts by PLN 12,172 thousand;
- Increase in other financial assets by PLN 54,935 thousand as a result of investments in securities (bonds); and
- Decrease in cash and cash equivalents by PLN 108,588 thousand as a result of the use of cash in order to finance day-to-day operating, investing and financing activities.

2) Long- and short-term payables:

- Decrease in long-term loans and bank credits and other financing sources by PLN 2,280 thousand as a result of decrease in lease payments;
- Decrease in trade and other payables by PLN 37,641 thousand as a result of a decrease in provisions for the costs of subcontractors and a decrease in valuation of contracts;
- Decrease in short-term provisions by PLN 8,784 thousand as a result of inspections of construction works, especially in terms of the expiry of warranties; and
- Decrease in long- and short-term retentions under construction contracts by PLN 3,825 thousand as a result of settlement of construction contracts.

17. Discussion of items of the statement of cash flows

The table below sets out the main items of the separate statement of cash flows reported by the Company at 31 December 2016 and the comparative data at 31 December 2015.

Item (PLN '000)	31-12-2016	31-12-2015	Change
Cash flows from operating activities	33,820	119,294	-85,474
Cash flows from investing activities	-64,097	-12,148	-51,949
Cash flows from financing activities	-11,355	-8,139	-3,216
Total net cash flows	-109,272	99,007	-208,279
Foreign exchange gains / (losses)	684	-328	1,012
Cash and cash equivalents at the beginning of the period	169,795	71,116	98,679
Cash and cash equivalents at the end of the period	61,207	169,795	-108,588
Depreciation / amortisation	9,222	8,732	490

Cash and cash equivalents at the end of the year decreased by PLN 108,588 thousand after cash had been used to finance day-to-day operating, investing and financing activities. The transactions with the biggest influence on the said decrease included the payment of PLN 54,935 thousand to buy short-term securities (bonds), the payment of dividend of PLN 7,513 thousand and the investments in non-current assets of PLN 10,982 thousand. In addition, the Franowo contract was settled and the amount of PLN 26,491 thousand was transferred by the Company to the bank account of Elektrobudowa SA (the consortium partner).

18. Ratio analysis

18.1. Debt ratios

Item	31-12-2016	31-12-2015	Rules of ratio calculation
Net debt	-101,465	-152,492	(Long- and short-term loans and bank credits and other financing sources + long- and short-term other financial liabilities) – cash and cash equivalents – other financial assets (in 2016 – bonds of PLN 54,935 thousand)
Debt ratio	0.4	0.5	<i>(non-current and current liabilities + provisions for liabilities) / total assets</i>
Debt to equity ratio	0.6	0.9	<i>(non-current and current liabilities) / equity</i>
Equity to assets ratio	0.6	0.5	<i>equity / total assets</i>
Fixed capital to non-current assets ratio	1.6	1.7	<i>(equity + non-current liabilities) / non-current assets</i>
Short-term debt ratio	0.3	0.4	<i>current liabilities / total assets</i>
Long-term debt ratio	0.1	0.1	<i>non-current liabilities / equity</i>
Interest coverage ratio	-1.7	-68.7	<i>EBIT / interest</i>

18.2. Liquidity ratios

Item	31-12-2016	31-12-2015	Rules of ratio calculation
Working capital	90,672	102,929	<i>current assets – current liabilities</i>
Current ratio	1.8	1.6	<i>current assets / current liabilities</i>
Quick ratio	1.8	1.5	<i>(current assets – inventory) / current liabilities</i>
Cash ratio	0.6	1.0	<i>cash and cash equivalents / current liabilities</i>

18.3. Financing structure ratios

Item	31-12-2016	31-12-2015	Rules of ratio calculation
Equity to assets ratio	0.6	0.5	<i>equity / total assets</i>
Equity to non-current assets ratio	1.5	1.5	<i>equity / non-current assets</i>
Debt ratio	0.4	0.5	<i>(total assets - equity) / total assets</i>
Debt to equity ratio	0.6	0.9	<i>(total assets - equity) / equity</i>

18.4. Profitability ratios

Item	31-12-2016	31-12-2015	Rules of ratio calculation
Gross margin	4.5%	9.0%	<i>gross profit / revenue</i>
EBITDA	9,965	36,573	<i>operating profit + depreciation / amortisation</i>
EBITDA margin	3.2%	7.2%	<i>EBITDA / revenue</i>
EBIT margin	0.2%	5.5%	<i>EBIT / revenue</i>
Gross margin	0.7%	4.0%	<i>gross profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
Net margin	0.5%	3.0%	<i>net profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
ROA	0.4%	3.8%	<i>net profit / total assets</i>
ROE	0.7%	7.7%	<i>net profit / equity-net profit</i>

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

No unusual factors or events occurred in the reporting period.

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

The Company did not publish any forecast 2016 financial results.

21. Investments

21.1. Investments made in 2016

The total capital expenditure incurred in 2016 amounted to PLN 11,119 thousand.

The capital expenditure is detailed in the table below.

Item (PLN '000)	Own funds	Leases	Credits	Total
Domestic investments				
Intangible assets, including:	97	0	0	97
- leasehold	0	0	0	0
Property, plant and equipment, including:	2,303	4,568	0	6,871
- buildings and structures	56	0	0	56
- plant and equipment	144		0	144
- vehicles	2,103	4,568	0	6,671
- other	0	0	0	0
Non-current assets under construction	4,151	0	0	4,151
Investment property	0	0	0	0
Equity investments	0	0	0	0
Total domestic investments	6,551	4,568	0	11,119
Total international investments	0	0	0	0

The Company's major investments in 2016 in property, plant and equipment included:

- Purchase of M62 Engine worth PLN 3,790 thousand. The transaction was financed under a lease contract;
- Complete overhauls of machines and vehicles in the total amount of PLN 1,901 thousand;
- Purchase of cars for the total price of PLN 1,019 thousand; and
- Purchase of a track for PLN 196 thousand.

The Company's investments in intangible assets in 2016 concerned the purchase of licence and software.

At the end of 2016, ZUE invested in the following property, plant and equipment:

- Krupp 75t Railroad Crane, Serial no. 206 678. Expected transaction closing date: May 2017. The purchase is financed by own resources. The amount of expenditure incurred as at 31.12.2016 is PLN 215 thousand.
- Two-axle wagon BA 816. Expected transaction closing date: May 2017. The purchase is financed by own resources. The amount of expenditure incurred as at 31.12.2016 is PLN 22,064 thousand.
- 10 TMS-40.01 wagons and one additional conveyor for coupling the TMS-40.01 wagon with the ballast cleaning machine RM80 UHR. The contract is continued successively until August 2017. The total value of the transaction is PLN 14,600 thousand.

21.2. Assessment of intended investments

In 2017, the Company will continue to invest in non-current assets under construction. New investments in property, plant and equipment as well as intangible assets will be made as needed.

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.

22. Management of financial resources

The Company 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 multipurpose lines as at 31.12.2016.

Bank	Description	Principal [PLN '000]	Outstanding amount as at 31.12.2016 [PLN '000]	Repayment date
mBank S.A.	Overdraft (agreement no. 07/183/04/Z/VV)	5,000	0	2017-05-12
mBank S.A.	Cooperation agreement (agreement no. 07/052/14/Z/PX) including: sublimit for revolving credits*	30,000	0	2017-07-20
BGŻ BNP Paribas S.A.	Revolving credit agreement no. WAR/2001/15/290/CB	30,000	0	Credit term until 2025-12-10 First disbursement by 2017-12-08
Total		65,000	0	

*According to the Cooperation Agreement no. 07/052/14/Z/XP with mBank SA, ZUE was granted a maximum limit of PLN 40m. Product sublimits were created including: a) sublimit for bonds up to PLN 25m; b) sublimit for non-revolving working capital facilities up to PLN 30m. The total amount of ZUE's liabilities to the bank must not exceed PLN 40m.

At 31 December 2016, the Company's debt under leases amounted to PLN 14,641 thousand.

As at 31 December 2016, ZUE held cash of PLN 61,207 thousand. At the end of 2016, the Company invested PLN 54,928 thousand in bonds and earned more than it would by holding money on deposits.

The balance of loans granted by ZUE as at 31 December 2016 was PLN 335 thousand. The loans were granted to RTI Germany (a subsidiary) and STE DE GEST N.S.F.C. IYANE/IBRAHIMA I.THIAM to finance their day-to-day operations.

On 12 August 2016, a revolving credit agreement was concluded between Railway gft and ZUE, and BGŻ BNP Paribas S.A. The principal borrower was Railway gft. Credit value: PLN 3m. Credit term: until 12 August 2017.

No credit or loan agreements were terminated by the Company in 2016.

23. Financial risk management

The main financial instruments used by the Company include:

- bank credits, loans and finance leases whose aim is to obtain funds for the Company's operation;
- trade and other receivables and payables as well as cash and short-term deposits arising during the course of the Company's operation.

The Company's activities expose it to different financial risks including foreign currency risk, interest rate risk, price risk, credit risk and liquidity risk. The Management Board verify these risks and define the rules governing the management of these risks.

Foreign exchange risk

As part of its operations, the Company makes settlements 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. If this is not possible, currency exposure (if relevant) is hedged on the financial market using currency futures.

Interest rate risk

The Company is exposed to interest rate risk mainly because it uses such instruments as bank credits and leases. 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.

Price risk

The Company 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 Company 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 risk is assessed as moderate.

Credit risk

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 (except for trade receivables from contracting authorities (investors) as part of projects executed pursuant to the Public Procurement Act). A credit risk relating to 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 Group tries to make sure that contracts with investors provide for the right to stop the works if the payment for the services already performed is delayed.

Liquidity risk

The Company reduces liquidity risk by maintaining sufficient cash and concluding credit line agreements which serve as an additional safeguard against the loss of liquidity. The Company uses its funds, bank borrowings and long-term finance lease agreements to finance its investments and to ensure appropriate stability of financing structure for this type of assets.

Liquidity management is supported by the system of reporting cash flow forecasts.

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

24. Scope of application of corporate governance principles

The information about the Company's compliance with the principles and recommendations contained in 2016 Code of Best Practice for WSE Listed Companies as well as relevant statement made by the Company's Management Board are available on ZUE's website: www.grupazue.pl; tab: Investor Relations > Corporate Governance.

In 2016, ZUE was subject to the Corporate Governance principles contained in the Appendix to the Resolution no. 26/1413/2015 passed by the Warsaw Stock Exchange Supervisory Board on 13 October 2015 – "2016 Code of Best Practice for WSE Listed Companies" (amendments made under the said Resolution came into force on 1 January 2016).

The Management Board of ZUE state that in the financial year 2016, the Company complied with the majority of the Corporate Governance principles set out in the Appendix to the Resolution no. 26/1413/2015 passed by the Warsaw Stock Exchange Supervisory Board on 13 October 2015 – "2016 Code of Best Practice for WSE Listed Companies," except for the following principles.

Chapter I – Disclosure Policy, Investor Communications

I.R.1.) - Content

"Where a company becomes aware that untrue information is disseminated in the media, which significantly affects its evaluation, it should immediately publish on its website a communiqué containing its position on such information, unless in the opinion of the company the nature of such information and the circumstances of its publication give reasons to follow a more adequate solution."

I.R.1.) – Company's Comment

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. The Company makes any effort to ensure that its 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 is in many cases hampered or even impossible. In addition, the Company has no influence on the speed of transfer or the receipt by the Company of information on opinion-making effects of the statements made by other persons unrelated to the Company.

I.R.2.) – Content

"Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report."

I.R.2.) – Company's Comment

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.

I.Z.1.15.) – Content

"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website."

I.Z.1.15.) – Company's Comment

The Company does not apply any diversity policy to the Company's governing bodies or key managers. The appointment of members of the Company's governing bodies or key managers depends on their competence, skills and effectiveness. The appointment decisions are made on the basis of these criteria. The Company believes that these assessment criteria help it select the candidates able to pursue the Company's strategy and ensure its development.

I.Z.1.16.) – Content

"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting."

I.Z.1.16.) – Company's Comment

According to Art. 406(5) of the Act, the transmission of a general meeting is not mandatory. There is no transmission of a general meeting at the Company. The Issuer believes that the Company's Articles of Association and the Company's Regulations of the General Meeting govern the course of and the participation in general meetings in a comprehensive and sufficient manner. In addition, the Management Board maintain that the Company's expenses relating to the transmission, recording and broadcasting are incommensurate with investor advantages.

I.Z.1.20.) – Content

"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: an audio or video recording of a general meeting."

I.Z.1.20.) – Company's Comment

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 covered by this principle. All resolutions passed by the Company are published immediately after a general meeting has taken place and investors are able to read the agenda.

Chapter II – Management Board and Supervisory Board

II.R.2.) - Content

"Decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience."

II.R.2.) - Company's Comment

Neither gender nor age is used as a criterion in the appointment to the Issuer's supervisory or management boards. The appointment of members of the Company's governing bodies depends on their competence, skills and effectiveness. The appointment decisions are made on the basis of these criteria. The Company believes that these assessment criteria help it select the candidates able to pursue the Company's strategy and ensure its development.

Chapter III – Internal Systems and Functions

III.Z.2.) – Content

"Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee."

III.Z.2.) – Company's Comment

The principle according to which persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board is not observed by the Company. Given the type and scope of the Company's activities, not every person responsible for any of these activities reports directly to the president or other member of the management board. The internal audit activities are monitored by the Audit Committee as part of the Committee's tasks and powers. However, relevant changes are planned by the Company and an internal audit unit may be separated from its structures.

III.Z.3.) - Content

"The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks."

III.Z.3.) – Company's Comment

Given the type and scope of the Company's activities, no independent organisational units responsible for internal audit tasks have been separated from its structures. Consequently, there are no objective reasons to state that these standards are observed by the Company. The internal audit activities are monitored by the Audit Committee as part of the Committee's tasks and powers. However, relevant changes are planned by the Company and an internal audit unit may be separated from its structures.

Chapter IV – General Meeting and Relations with Shareholders

IV.R.2.) - Content

"If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1) *real-life broadcast of the general meeting;*
- 2) *real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;*
- 3) *exercise of the right to vote during a general meeting either in person or through a proxy."*

IV.R.2.) – Company's Comment

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 general meetings in a comprehensive and sufficient manner. The Issuer also maintains that the Company's expenses relating to the holding of a general meeting with the use of electronic communication means are incommensurate with investor advantages. In addition, the Company identifies major legal risks relating to such a form of a general meeting.

IV.Z.7.) – Content

"A break in the proceedings of the general meeting may only take place in special cases, defined at each time in the justification of the resolution announcing the break, drafted on the basis of reasons provided by the shareholder requesting the break."

IV.Z.7.) – Company's Comment

The Issuer complies with the provisions of Art. 408 § 2 of the Act concerning breaks in the proceedings of a general meeting. According to the Company, these provisions ensure that any breaks only take place in special cases.

IV.Z.8.) – Content

"A resolution of the general meeting announcing a break should clearly set the date and time when the proceedings recommence, and such date and time must not be a barrier for most shareholders, including minority shareholders, to participate in the continuation of the proceedings."

IV.Z.8.) – Company's Comment

The Issuer complies with the provisions of Art. 408 § 2 of the Act concerning breaks in the proceedings of a general meeting.

IV.Z.18.) – Content

"A resolution of the general meeting to split the nominal value of shares should not set the new nominal value of the shares below PLN 0.50, which could result in a very low unit market value of the shares, and which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange."

IV.Z.18.) – Company’s Comment

The share nominal value is PLN 0.25 so the principle does not apply to the Company.

Chapter VI – Remuneration

VI.R.1.) – Content

“The remuneration of members of the company’s governing bodies and key managers should follow the approved remuneration policy.”

VI.R.1.) – Company’s Comment

Members of the Issuer’s Management Board are paid according to the scope of their tasks, the responsibility connected with their position and their performance. The remuneration of members of the Supervisory Board is defined by the General Meeting. The Issuer does not intend to apply any remuneration policy to members of the Company’s governing bodies in order to have greater freedom to decide. The Company’s Corporate Collective Labour Agreement sets out detailed rules governing the remuneration payable to all employees of the Company, including key managers but excluding members of the Management Board and Chief Accountant.

VI.R.3.) – Content

“If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.”

VI.R.3.) – Company’s Comment

The Company’s Supervisory Board has no remuneration committee.

VI.Z.4.) – Content

“In this activity report, the company should report on the remuneration policy including at least the following:

- 1) general information about the company’s remuneration system;*
- 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;*
- 3) information about non-financial remuneration components payable to each management board member and key manager;*
- 4) significant amendments to the remuneration policy in the last financial year or information about their absence;*
- 5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company’s stability.”*

VI.Z.4.) – Company’s Comment

Given the trade secret and heavy competition, the Company will continue to present the information on its remuneration policy according to applicable laws.

Regardless of the foregoing recommendations and detailed Corporate Governance principles the Issuer decided to deviate from in the past year, the Company informs referring to the recommendation III.R.1: *“The company’s structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company’s activity,”* about the establishment in 2016 of the Internal Control Office. The said establishment followed the Company’s decision to strengthen internal control. The tasks of the Internal Control Office include the preparation, in cooperation with the management board and managers of the Company’s organisational units, of annual control plans and the supervision of their implementation, scheduled and unscheduled internal inspections carried out at the request of the Management Board President or the Supervisory Board, recommendation of systemic solutions aimed at the improvement of processes at the Company and identification of potential risks. The aim of internal control is to enhance the efficiency of business activities by supplying objective information about identified irregularities and inefficiencies, and the ways to remove them. The Issuer believes that the supervision of the compliance of business activities with the law is a major business tool used to avoid a risk of the violation of laws or standards,

ensure proper operation and to protect the Company's competitiveness and reputation. Given the type and scope of the Company's activities, the internal control system is decentralised. The control is exercised by managers of individual divisions and organisational units.

25. Key characteristics of ZUE's risk management internal control 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 cooperates directly with, and reports their 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.

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

Given the type and scope of the Company's activities, there is no need for separate internal control, risk management or compliance supervision in separate organizational units. These tasks are dispersed and carried out by the Company's individual organizational units. However, the Internal Control Office was established in 2016 following the Company's decision to strengthen internal control. The aim of internal control is to enhance the efficiency of business activities by supplying objective information about identified irregularities and inefficiencies, and the ways to remove them. The efficiency of the Company's dispersed internal control, risk management and compliance supervision systems have been favourably assessed by the Company's Management Board.

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, relevant changes are anticipated by the Company and an internal audit unit may be separated from its structures.

27. Shares and shareholding structure

27.1. 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; and
- 1,030,083 class C bearer shares.

27.2. Treasury shares

At this report preparation date, the Company held 264,652 treasury shares. The shares were acquired by the Company from the employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., the company which merged with ZUE S.A., as part of the buy-back effected in 2015. 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 S.A. to buy back own shares. No treasury shares were acquired by the Company in 2016. 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 the organised trading.

27.3. 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 13 March 2017	% of share capital/total number of votes	Number of shares/votes on the date of publication of the last quarterly report*	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
METLIFE OFE**	1,400,000***	6.08	1,400,000	6.08
PKO Bankowy OFE	1,500,000****	6.51	1,500,000	6.51
Other	5,729,763*****	24.88	5,729,763	24.88
Total	23,030,083	100	23,030,083	100

* Publication of the last quarterly report (Consolidated quarterly report of ZUE S.A. for III quarter of 2016): 7 November 2016.

** 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.

27.4. 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 13 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 Vice-President	7,806	1,951.50	0.03	None
Magdalena Lis	Supervisory Board Vice-Chairperson	7,640	1,910.00	0.03	+ 75 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 2016); i.e. 7 November 2016.

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 2016, Mr. Wiesław Nowak held 2,205 shares in RTI (a subsidiary) with a total par value of PLN 110,250 (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.

27.5. Holders of securities conferring special control powers

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

27.6. Restrictions on exercise of voting rights

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

27.7. Restrictions on transferability of securities

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

28. 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

No shares were bought back by the Company in 2016. Section 27.2 of this report contains a detailed description of the transaction.

Apart from the abovementioned circumstance, 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.

29. Issue of securities

No securities were issued by the Company in 2016.

GOVERNING BODIES

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

30.1. 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 independently or two Management Board members acting jointly or one Management Board member together with a commercial proxy or a commercial proxy independently.

At this report preparation date, the Management Board was composed of:

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

On 25 May 2016, the Company's Supervisory Board resolved to appoint five members to the Company's Management Board for a new three-year term. The same members would serve on the Management Board as of the date of the General Meeting held to approve the financial statements; i.e. 25 May 2016.

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

Section 5.38 Remuneration of key management personnel of the separate financial statements presents the remuneration paid to the members of the Company's Management Board.

30.2. Agreements between the Issuer and the Management 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 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.

30.3. 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 25 May 2016. The composition of the Supervisory Board remained unchanged and at the end of the reporting period, it was composed of:

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

Section 5.38 Remuneration of key management personnel of the separate financial statements presents the remuneration paid to the members of the Company's Supervisory Board.

31. Rules governing appointment and removal from office of managing personnel and the managing personnel's powers, including authority to decide about share issues or buybacks

Members of the Management Board of ZUE are appointed for a common 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.

32. 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 tasks 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.

33. 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.

34. 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.

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

In 2016, the organisational structure of the Company did not change considerably when compared with 2015.

Section 2.2 of this report deals with major changes in the Group's organisation. Changes to the composition of the Company's Management Board in 2016 are discussed in section 30.1 hereof.

36. Diversity policy applied to the Issuer's governing bodies and key managers

The Company does not apply any diversity policy to the Company's governing bodies or key managers. The appointment of members of the Company's governing bodies or key managers depends on their competence, skills and effectiveness. The appointment decisions are made on the basis of these criteria. The Company believes that these assessment criteria help it select the candidates able to pursue the Company's strategy and ensure its development.

OTHER INFORMATION ABOUT ZUE S.A.

37. Human capital management

At 31 December 2016, the Company employed 617 people, including 86 women.

Male and female representation on the Management and Supervisory Board:

	2016			
	Management Board		Supervisory Board	
	Number of people	%	Number of people	%
Women	1	20%	1	20%
Men	4	80%	4	80%
Total	5	100%	5	100%

The total number of employees included 231 white-collar workers and 386 blue-collar workers.

Employment structure at ZUE S.A. according to the types of activity:

Activity	2016
Management and administration	79
Sales and marketing	17
Production	386
Engineers and technicians	135
TOTAL	617

Employment structure at ZUE according to education:

Education	2016
Elementary	50
Vocational	194
Secondary	189
Higher	184
TOTAL	617

Employment structure at ZUE according to age:

Age	2016
20-30	89
>30-40	189
>40-50	114
>50-60	166
>60	59
TOTAL	617

In 2016, the Company paid the total gross remuneration of PLN 51,168 thousand under employment contracts and the total gross remuneration of PLN 100 thousand under civil law agreements.

38. Liabilities under pensions and similar benefits

Liabilities under pensions and similar benefits for former management and supervisory personnel as well as liabilities incurred in connection with the said pensions are presented in the note no. 50.32 of the separate financial statements for 2016.

39. Occupational health and safety

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 2015, the Company was recertified with OHSAS 18001:2007.

No death or collective or serious accident at work was reported in 2016 at ZUE. The number of workplace injuries decreased when compared with 2015. The inspections carried out in 2016 by the National Labour Inspectorate did not reveal any significant deviations from applicable 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.

40. Quality System Management

ZUE S.A. has for many years provided the highest quality services taking care 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 handover 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 implementing and maintaining the Integrated Management System, ZUE S.A. strengthens its position of a reliable company able to satisfy the needs of the most demanding clients and reduces the impact of its processes, products and services on environment and neighbouring community as well as strictly observes the rules of occupational health and safety imposed both by the law and the Company.

ZUE S.A. cooperates with the best suppliers and subcontractors recognised on both the Polish and international markets. These entities offer top quality products and services which meet the environmental protection

requirements and the rules of occupational health and safety.

The Company has implemented a rational and environmentally friendly waste management strategy and constantly improves its activities to prevent and reduce pollution and emissions to the environment. We take advantage of technical progress, work organisation techniques as well as our knowledge and experience to provide proper work conditions, reduce professional risks, prevent on-the-job illnesses and accidents at work and, consequently, to improve work safety and comfort.

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.

No inconsistencies were found during the first period audit conducted in the period 10.02.2016–12.02.2016 whose principal aim was to confirm the compliance of the management system with reference standards and to assess the management system efficiency to ensure that ZUE S.A. continued to achieve its goals and to meet legal or contractual requirements.

41. Employee share scheme control system

ZUE has no employee share scheme control system.

42. Preparation basis

This Report on Activities of ZUE between 1 January – 31 December 2016 contains the information whose scope has been set out in § 91 and § 92 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent (the "Regulation").

The financial statements of the Company and the Group for the financial year 2016 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.

43. Major research and development projects

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

44. 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 2016 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 for Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for the audit and review of the financial statements for 2014, 2015 and 2016 was set at PLN 130 thousand.

45. Court proceedings

As at 13 March 2016, ZUE is 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 is PLN 9,686,338.37 and the total value of the proceedings concerning claims is PLN 33,913,496.64.

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

The court proceedings have been discussed in detail in section 53 of the Report on Activities of ZUE Capital Group.

46. 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 the 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.

47. Statement of compliance

The Management Board of ZUE state that according to their best knowledge, the annual separate financial statements of the Company for 2016 and the comparative data have been prepared in accordance with applicable accounting principles and give a true and fair view of the economic and financial position of the Company and its profit or loss. 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.

48. 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 2016 has been appointed according to the law. The entity authorized to audit the financial statements and chartered auditors involved in the audit have 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.

