

ZUE S.A.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

**Prepared in Accordance with the International Financial Reporting
Standards as Endorsed by the European Union.**

Cracow, 14 March 2014

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Abbreviations and definitions:

ZUE, Company	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.
PRK	Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. with registered office in Cracow previously 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 0000150723, share capital of PLN 9,500,000 paid up in full. On 20 December 2013, PRK was removed from the register as a result of merger with ZUE.
BIUP	Biuro Inżynierskich Usług Projektowych Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 19,400 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 50,000 paid up in full. Subsidiary of ZUE.
RTI Germany	Railway Technology International Germany GmbH with registered office in Hamburg, Germany. Share capital of EUR 25,000 paid up in full. Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
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 0000160302, share capital of PLN 1,747,500 paid up in full. Subsidiary of ZUE.
BPK Gdańsk	Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. w likwidacji with registered office in Gdańsk, entered into the National Court Register maintained by the District Court Gdańsk-Północ, VII Commercial Division of the National Court Register, under entry no. KRS 0000273363, share capital of PLN 1,000,000 paid up in full. Associate.
ZUE Group, Group, Capital Group	ZUE Capital Group comprising: ZUE, Biuro Inżynierskich Usług Projektowych Sp. z o.o., Railway Technology International Sp. z o.o., Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. and Railway Technology International Germany GmbH.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Dz.U. 2000, no. 94, item 1037, as amended).

Statement of comprehensive income

(PLN)

Item	Notes	Year ended 31/12/2013	Year ended 31/12/2012
Revenue	5	402,795,774.02	328,247,088.14
Cost of sales	6	379,044,824.46	319,731,044.07
Gross profit (loss) on sales		23,750,949.56	8,516,044.07
General and administrative expenses	6	17,866,771.37	10,992,829.11
Other operating income	7	5,326,989.30	1,436,179.42
Other operating expenses	8	2,957,539.00	1,111,259.26
Profit (loss) on operating activities		8,253,628.49	-2,151,864.88
Financial income	9	3,416,739.79	3,222,258.16
Financial expenses	10	2,237,594.48	3,506,272.15
Pre-tax profit (loss)		9,432,773.80	-2,435,878.87
Corporate income tax	11	1,791,078.01	-132,213.78
Net profit (loss)		7,641,695.79	-2,303,665.09
NET PROFIT (LOSS)		7,641,695.79	-2,303,665.09
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of liabilities under employee benefits		-9,044.20	0.00
Other total net comprehensive income		-9,044.20	0.00
TOTAL COMPREHENSIVE INCOME		7,632,651.59	-2,303,665.09
Weighted average number of shares		22,033,866	22,000,000
Net profit (loss) per share (PLN) (basic and diluted)		0.35	-0.10
Total comprehensive income (loss) per share (PLN)		0.35	-0.10

Statement of financial position

(PLN)

	Notes	As at 31/12/2013	As at 31/12/2012
ASSETS			
Non-current assets			
Property, plant and equipment	13	64,165,586.06	24,138,620.72
Investment property	14	8,659,761.20	0.00
Intangible assets	14.1	11,222,515.87	1,628,595.08
Goodwill	15.2	31,171,913.65	0.00
Investments in subsidiaries	15	3,100,292.38	80,605,209.38
Advance payments for investments in subsidiaries		0.00	0.00
Long-term receivables	18.2	0.00	37,956,720.03
Retentions on construction contracts	25	1,644,247.14	52,961.59
Deferred tax assets	11.3	21,915,295.86	12,412,784.77
Other assets	16	27,435.88	0.00
Total non-current assets		141,907,048.04	156,794,891.57
Current assets			
Inventories	17	18,010,068.74	16,548,103.50
Trade and other receivables	18	171,695,587.58	152,704,039.05
Retentions on construction contracts	25	5,219,036.44	3,643,819.20
Current tax assets	11.2	0.00	0.00
Other assets	16	1,938,211.90	1,855,616.99
Loans advanced	31	1,753,960.18	785,128.59
Cash and cash equivalents	34	49,645,210.98	10,231,528.46
Total current assets		248,262,075.82	185,768,235.79
Total assets		390,169,123.86	342,563,127.36
EQUITY AND LIABILITIES			
Equity			
Share capital	19	5,757,520.75	5,500,000.00
Share premium account	21	93,836,665.29	85,360,680.68
Retained earnings	20	92,840,726.72	79,530,742.29
Total equity		192,434,912.76	170,391,422.97
Non-current liabilities			
Long-term bank borrowings and other debt instruments	22	9,550,685.66	22,840,167.24
Retentions on construction contracts	25	8,957,972.44	3,045,951.42
Other financial liabilities		0.00	0.00
Liabilities under employee benefits	28	704,984.88	127,658.41
Deferred tax liabilities	11.3	19,959,519.50	14,120,991.78
Long-term provisions	23	6,636,926.15	2,096,936.75
Deferred revenue		0.00	0.00
Other liabilities		0.00	0.00
Total non-current liabilities		45,810,088.63	42,231,705.60
Current liabilities			
Trade and other payables	26	88,317,908.85	80,912,843.77
Retentions on construction contracts	25	6,629,847.11	7,133,576.68
Short-term bank borrowings and other debt instruments and other financing sources	22	40,376,960.45	39,133,333.52
Other financial liabilities		0.00	0.00
Liabilities under employee benefits	28	7,321,351.22	2,345,244.82
Current tax liabilities	11.2	2,942,830.00	0.00
Short-term provisions	23	6,335,224.84	415,000.00
Total current liabilities		151,924,122.47	129,939,998.79
Total liabilities		197,734,211.10	172,171,704.39
Total equity and liabilities		390,169,123.86	342,563,127.36

Statement of changes in equity

(PLN)

Item	Share capital	Share premium account	Retained earnings	Total
Balance at 1 January 2013	5,500,000.00	85,360,680.68	80,551,515.00	171,412,195.68
Correction of errors	0.00	0.00	-1,020,772.71	-1,020,772.71
Balance at 1 January 2013	5,500,000.00	85,360,680.68	79,530,742.29	170,391,422.97
Changes in equity	0.00	0.00	5,677,332.84	5,677,332.84
Payment of dividends	0.00	0.00	0.00	0.00
Issue of shares	257,520.75	9,023,527.08	0.00	9,281,047.83
Issue costs	0.00	-547,542.47	0.00	-547,542.47
Net profit (loss)	0.0	0.00	7,641,695.79	7,641,695.79
Other net comprehensive income	0.00	0.00	-9,044.20	-9,044.20
Balance at 31 December 2013	5,757,520.75	93,836,665.29	92,840,726.72	192,434,912.76
Balance at 1 January 2012	5,500,000.00	85,360,680.68	81,834,407.38	172,695,088.06
Payment of dividends	0.00	0.00	0.00	0.00
Issue of shares	0.00	0.00	0.00	0.00
Issue costs	0.00	0.00	0.00	0.00
Net profit (loss)	0.00	0.00	-2,303,665.09	-2,303,665.09
Other net comprehensive income	0.00	0.00	0.00	0.00
Balance at 31 December 2012	5,500,000.00	85,360,680.68	79,530,742.29	170,391,422.97

Statement of cash flows

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before tax	9,432,773.80	-2,435,878.87
Adjustments:		
Depreciation and amortisation	7,243,937.61	3,151,380.24
Foreign exchange gains / (losses)	-13,795.91	2,546.10
Interest and share in profit (dividends)	-776,119.22	3,613,108.66
(Gain) / loss on disposal of investments	525,920.57	204,080.04
Accrued expenses under commission on loans	208,125.00	208,125.00
(Gain) / loss on realisation of derivative financial instruments	0.00	0.00
Remeasurement of derivative financial instruments	0.00	0.00
Operating profit before changes in working capital	16,620,841.85	4,743,361.17
Change in receivables and retentions on construction contracts	55,992,897.90	-16,532,003.49
Change in inventories	2,245,481.28	1,471,027.67
Change in provisions and liabilities under employee benefits	-1,032,789.33	-3,915,762.05
Change in retentions on construction contracts and liabilities, excluding borrowings, other debt instruments and other financing sources	-62,195,606.74	-2,621,652.46
Change in accrued expenses	855,766.54	851,687.16
Change in funds of limited availability	0.00	0.00
Other adjustments	0.00	0.00
Income tax paid	-456,552.00	-3,460,174.00
NET CASH PROVIDED BY / USED IN OPERATING ACTIVITIES	12,030,039.50	-19,463,516.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	3,052,286.86	4,270,128.88
Purchase of property, plant and equipment and intangible assets	-9,861,724.36	-1,034,477.44
Investments in real property and intangible assets	0.00	0.00
Sale / (purchase) of financial assets in non-consolidated subsidiaries	0.00	-22,950.00
Sale / (purchase) of financial assets in consolidated subsidiaries	-2,060,857.32	-1,626,305.20
Purchase of financial assets available for sale	0.00	0.00
Loans advanced	-1,580,000.00	-726,261.26
Dividends received	0.00	0.00
Interest received	1,578,402.89	110,227.25
Settlement of financial instruments – expenses	0.00	0.00
Other investment income / (expenses)	0.00	0.00
NET CASH FROM INVESTING ACTIVITIES	-8,871,891.93	970,362.23
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings and other debt instruments received	75,108,049.91	79,453,379.39
Repayment of borrowings and other debt instruments	-90,769,030.99	-65,772,787.72
Decrease in finance lease liabilities	-3,702,536.34	-1,786,218.59
Interest paid	-1,785,223.03	-2,894,321.78
Other cash provided by / (used in) financing activities – dividends	-575,406.00	0.00
Cash provided by / (used in) issue of shares	-547,542.47	0.00
Receipts – repayment of loans	0.00	0.00
NET CASH FLOWS FROM FINANCING ACTIVITIES	-22,271,688.92	9,000,051.30
TOTAL NET CASH FLOWS	-19,113,541.35	-9,493,102.47
Cash acquired as a result of merger (balance at 01.01.2013)	58,515,733.45	0.00
TOTAL NET CASH FLOWS (including the flow of cash acquired as a result of merger)	39,402,192.10	-9,493,102.47
Net foreign exchange gains / (losses)	11,490.42	267.05
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	10,231,528.46	19,724,363.88
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	49,645,210.98	10,231,528.46

Selected financial data translated into EUR

Rules adopted to translate selected financial data into EUR:

Items	Exchange rate	Exchange rate on 31 Dec 2013	Exchange rate on 31 Dec 2012	Exchange rate on 31 Dec 2011
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.1472	4.0882	n/a
Items of statement of profit or loss and statement of cash flows	Arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month of the period	4.2110	4.1736	n/a
"Cash at the beginning of the year" and "Cash at the end of the year" items in the statement of cash flows	Mid exchange rate prevailing at the end of the reporting period	4.1472	4.0882	4.4168

The financial statements of the Company as at 31 December 2013 have been the first annual report prepared after the merger of ZUE and Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna effected on 20 December 2013.

The data for the prior financial year comes from the separate financial statements of ZUE as the acquiring company as at 31 December 2012. This is the main reason for highly dynamic changes in certain items that occurred on a year-on-year basis.

The consolidated financial statements of the ZUE Group present comparative information as at 31 December 2012 taking account of the data of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. Prior to the merger, PRK was a subsidiary of ZUE.

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

	As at 31.12.2013		As at 31.12.2012	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	141,907	34,218	156,795	38,353
Current assets	248,262	59,862	185,768	45,440
Total assets	390,169	94,080	342,563	83,793
Equity	192,435	46,401	170,391	41,679
Non-current liabilities	45,810	11,046	42,232	10,330
Current liabilities	151,924	36,633	129,940	31,784
Total equity and liabilities	390,169	94,080	342,563	83,793

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

	Year ended 31.12.2013		Year ended 31.12.2012	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	402,796	95,653	328,247	78,648
Cost of sales	379,045	90,013	319,731	76,608
Gross profit (loss) on sales	23,751	5,640	8,516	2,040
Profit (loss) on operating activities	8,254	1,960	-2,152	-516
Gross profit (loss)	9,433	2,240	-2,436	-584
Net profit (loss) on operations	7,642	1,815	-2,304	-552
Total comprehensive income	7,633	1,813	-2,304	-552

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

	Year ended 31.12.2013		Year ended 31.12.2012	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	12,030	2,857	-19,464	-4,663
Cash flows from investing activities	-8,872	-2,107	970	233
Cash flows from financing activities	-22,272	-5,289	9,000	2,156
Total net cash flows	-19,114	-4,539	-9,494	-2,274
Cash acquired as a result of merger (balance at 01.01.2013)	58,516	13,896	0,00	0,00
TOTAL NET CASH FLOWS (including the flow of cash acquired as a result of merger)	39,402	9,357	-9,494	-2,274
Cash at the beginning of the year	10,232	2,503	19,724	4,466
Cash at the end of the year	49,645	11,971	10,232	2,503

Notes to the financial statements prepared as at 31 December 2013

1. General information

1.1. Information about the Company

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

Composition of the Company's governing and supervisory bodies at the end of the reporting period:

Management Board:

Wiesław Nowak	President of the Management Board
Marcin Wiśniewski	Vice-President of the Management Board
Jerzy Czeremuga	Vice-President of the Management Board
Maciej Nowak	Member of the Management Board
Anna Mroczek	Member of the Management Board
Arkadiusz Wierciński	Member of the Management Board (appointed on 9 January 2014)

Supervisory Board:

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

1.2 Functional and reporting currency

These financial statements have been prepared in Polish zloty (PLN). Polish zloty is the Company's functional and reporting currency. The data in the financial statements has been disclosed in Polish zloty.

2. Use of International Financial Reporting Standards

2.1. Statement of compliance

The financial statements of the Company for the year ended 31 December 2013 and the comparative data for the financial year ended 31 December 2012 have been drawn up in accordance with the requirements of the International Financial Reporting Standards as endorsed by the European Union (EU).

2.2. Standards and interpretations used for the first time in 2013

The following standards, amendments to the standards and interpretations published by the International Accounting Standards Board and approved of by the European Union came into force in 2013:

- **IFRS 13 “Fair Value Measurement”** approved of in the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IFRS 1 “First-Time Adoption of International Financial Reporting Standards” – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters** approved of in the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IFRS 1 “First-Time Adoption of International Financial Reporting Standards” – Government Loans** approved of in the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** – Offsetting Financial Assets and Financial Liabilities approved of in the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IFRS 10 “Consolidated Financial Statements,” IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”** – interim provisions explanation (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IAS 12 “Income Tax”** – Deferred Tax: Recovery of Underlying Assets approved of in the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IAS 19 “Employee Benefits”** – amendments to post-employment benefits approved of in the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to different standards “Amendments to IFRS (2009-2011)”** – amendments made as part of making annual amendments to IFRS approved of in the EU on 27 March 2013 (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) aimed mainly at the resolution of inconsistencies and specification of vocabulary (effective for annual periods beginning on or after 1 January 2013).

According to the Management Board of ZUE, these standards, amendments to the standards and interpretations do not have any significant impact on the financial statements of the ZUE Group.

2.3. Standards and interpretations published and approved of by the EU but not yet effective

When approving these financial statements, the Company did not apply the following standards or amendments to the standards, which had been published and approved of by the EU but had not yet come into force:

- **IFRS 10 “Consolidated Financial Statements”** approved of in the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- **IFRS 11 “Joint Arrangements”** approved of in the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- **IFRS 12 “Disclosure of Interests in Other Entities”** approved of in the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- **IAS 27 (as amended in 2011) “Separate Financial Statements”** approved of in the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- **IAS 28 (as amended in 2011) “Investments in Associates and Joint Ventures”** approved of in the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- **Amendments to IAS 32 “Financial Instruments: Presentation”** – Offsetting Financial Assets and Financial Liabilities approved of in the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).

The Management Board of ZUE decided not to apply the foregoing standards or amendments to the standards. According to their estimates, these standards and amendments to the standards would not have any significant impact on the financial statements if used by ZUE at the end of the reporting period.

2.4. Standards and interpretations adopted by the IASB but not yet approved by the EU

The International Financial Reporting Standards (IFRS) as endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) save for the following standards, amendments to the standards and interpretations not yet approved for use as at 14 March 2014:

- **IFRS 9 “Financial Instruments,” Amendments to IFRS 9** (effective date removed for indefinite period);
- **Amendments to IFRS 10 “Consolidated Financial Statements,” IFRS 12 “Disclosure of Interests in Other Entities” and IAS 27 “Separate Financial Statements”** – investment units (effective for annual periods beginning on or after 1 January 2014);

- **Amendments to IAS 36 “Impairment of Assets” - Recoverable Amount Disclosures for Non-Financial Assets** (effective for annual periods beginning on or after 1 January 2014);
- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”** – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014);
- **Amendments to IAS 19 “Employee Benefits”** – employee premiums (effective date: 1 July 2014);
- **International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 21 “Public Fees”** (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IFRS (2010-2012)** – amendments made as part of making annual amendments to IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), (effective for annual periods beginning on or after 1 July 2014).
- **Amendments to IFRS (2011-2013)** – amendments made as part of making annual amendments to IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40), (effective for annual periods beginning on or after 1 July 2014).

The estimated impact of these amendments on future financial statements of the Company is being analysed.

3. Adopted accounting principles

3.1. Preparation basis and comparability of data

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

The financial statements of the Company as at 31 December 2013 have been the first annual report prepared after the merger of ZUE and Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna effected on 20 December 2013.

The data for the prior financial year comes from the separate financial statements of ZUE as the acquiring company as at 31 December 2012. This is the main reason for highly dynamic changes in certain items that occurred on a year-on-year basis.

The consolidated financial statements of the ZUE Group present comparative information as at 31 December 2012 taking account of the data of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. Prior to the merger, PRK was a subsidiary of ZUE.

Comparability of financial data and adjustments to the financial statements:

- a) In the financial statements for 2013 and the comparative data for 2012, the company presented Liabilities under employee benefits of PLN 727 thousand.

	Presentation in the financial statements as at 31/12/2012	Comparative data as at 31/12/2012
Trade and other payables	726,562.06	0.00
Liabilities under employee benefits	0.00	726,562.06

The foregoing adjustment concerned 2012.

- b) In 2012, ZUE incorrectly capitalized the cost of consultancy of PLN 1,021 thousand.
In 2013, the Company adjusted the result and wrote it off as expenses.

The adjustment concerned 2012. The adjustment as at 31 December 2013 reduced the retained earnings by PLN 1,021 thousand and the prepaid expenses.

3.2. Segment reporting

ZUE's reporting is based on operating segments.

The Company presented one aggregate operating segment as required by the IFRS 8.12: engineering construction and assembly services.

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

3.3. Measurement of sales revenue

Sales revenue is measured at the fair value of the consideration received or receivable, net of discounts, returns and similar deductions, including VAT and other sales-related taxes.

3.3.1. Sale of goods and materials

Revenue from the sale of goods and materials is recognised when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.3.2. Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs, including financial expenses, are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. Variations in contract works and claims are included to the extent that they have been agreed on with a customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Included in assets are the amounts due and receivable from customers (employers) under all construction work in progress in respect of which the incurred costs increased by recognised profits (reduced by recognised losses) exceed the amounts due under partial invoices. Outstanding invoiced amounts due and payable for the contract work performed are recognized under "Trade and other receivables" and the amounts retained by customers under "Retentions on construction contracts."

Included in liabilities are the amounts due and payable to customers under all construction work in progress in respect of which the amounts invoiced for the work performed under the contract exceed the incurred costs increased by recognized profits (reduced by recognized losses). Outstanding amounts due and payable to suppliers, which have been invoiced to the Company, are recognized under "Trade and other payables" and the amounts retained for suppliers under "Retentions on construction contracts."

3.4. Foreign currencies

Transactions in currencies other than functional currency are recognised at the rate prevailing at the date of the transaction. At the end of each reporting period, financial assets and liabilities denominated in foreign currencies are translated at the rate quoted at that date by the National Bank of Poland. Assets and liabilities measured at fair value and denominated in foreign currencies are measured at the rate prevailing at the date when the fair value was determined. Non-monetary items are measured at historical cost.

3.5. Borrowing costs

Borrowing costs directly attributable to the acquisition or production of assets that take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs include exchange differences arising from foreign currency loans and borrowings to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are recognised, subject to item 3.3.2, in profit or loss in the period in which they are incurred.

These capitalisation rules do not apply to assets measured at fair value

3.6. Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is the acquisition or production by the Company of fixed assets are recognised in the statement of financial position as prepayments and accrued income and transferred to profit or loss on a systematic basis over the expected useful lives of the related assets.

Other government grants are recognised as income on a systematic basis over the period necessary to match them with the related costs which they were intended to compensate. A government grant that becomes

receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

Rules of transferring grants to fixed assets also apply in the case of fixed assets received for free.

3.7. Employee benefits

Costs of employee benefits include short-term benefits and post-employment benefits.

Costs of wages and salaries include the wages and salaries under employment contracts concluded with individual employees. Costs of wages and salaries also include bonuses and paid leaves.

Costs of social insurance include pension, social security and accident benefits and contributions to the Guaranteed Benefits Fund, the Labour Fund and the Bridging Pension Fund. Costs of pension benefits include retirement gratuities paid to employees according to the labour law.

The Company operates the retirement gratuity scheme and makes a provision for these benefits. Payments under this scheme are recognised in profit or loss in a way enabling the spread of these costs over the entire term of employees' employment with the Company. The amount of the provision is determined by an independent actuary using the projected unit method.

The Company is obliged to create the Company Social Benefits Fund. Contributions to this Fund are the Company's expenses and must be blocked on a separate bank account. The fund assets and liabilities are disclosed in the financial statements at their net value.

Other employee benefits include trainings organised to improve employees' qualifications, medical care and other benefits provided for under the labour law.

The Company recognises actuarial gains and losses in the period in which they arise. All actuarial gains and losses are recognised in the statement of comprehensive income.

3.8. Taxation

Income tax expense represents the tax currently payable and deferred tax.

3.8.1. Current tax

The tax currently payable is calculated based on taxable profit for the year. Taxable profit (loss) differs from accounting net profit (loss) because it excludes items of income or expense that are not taxable or deductible and items of income or expense that are never taxable. The Group's liability for current tax is calculated using tax rates applicable in the year.

3.8.2. Deferred tax

Deferred tax is accounted for using the balance sheet liability method as the tax payable or recoverable on differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

A deferred tax liability is recognised for all taxable temporary differences and a deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, tax losses or tax credit can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply when the asset is realised or the liability becomes due. Income tax is presented in the statement of financial position after the offset against liability payable to the same taxation authority.

3.8.3. Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is recognised directly in equity.

3.9. Property, plant and equipment

Property, plant and equipment include fixed assets and expenditures on fixed assets under construction the entity intends to use in its operation and for administrative purposes for more than 1 year from which future economic benefits are expected to flow to the entity. Expenditure on fixed assets includes capital expenditure and expenses

incurred in connection with future deliveries of plant and equipment and services related to the production of fixed assets (prepayments). Fixed assets also include essential specialist spare parts, which function as elements of fixed assets.

Fixed assets and fixed assets under construction are initially recognised at purchase price or production cost, including financing costs less impairment losses. Depreciation of those assets commences, on the same basis as other fixed assets of the Company, when they are placed in service.

Fixed assets are depreciated according to the rates which reflect the estimated period of their useful lives. Estimates of useful life are reviewed every year. Fixed assets are depreciated on a straight-line basis. The following useful lives are used for fixed assets:

Item	Useful lives
Buildings and structures	25 – 30 years
Plant and equipment	5 – 20 years
Vehicles	7 – 30 years
Other fixed assets	4 – 15 years

Freehold land is not depreciated.

According to the principle of prudence, low value fixed assets are carried on a one-off basis to profit or loss in the period in which the expense was incurred.

Fixed assets and fixed assets under construction are tested for impairment if there are indications of impairment at least at the end of each reporting period. Rules governing the determining of impairment are set out in note 3.12. Effects of the impairment of fixed assets and fixed assets under construction are recognised in other operating expenses.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets.

Gains or losses from the sale/liquidation or discontinued use of fixed assets are determined as the difference between sales revenue and the carrying amounts of those assets and are recognised in profit or loss.

3.10. Investment property

Investment properties are properties (including properties under construction) held by the Company as their owner or lessee to earn rentals and/or for capital appreciation.

Investment properties are initially recognised at purchase price, including associated transaction costs. Subsequent to initial recognition, investment properties, except for land, are depreciated on a straight-line basis less impairment losses.

Investment properties, which meet the criteria of being classified as held for sale or disclosed in a pool held for sale, are measured according to the rules set forth in note 3.16.

Gains or losses arising from the sale/liquidation or discontinued use of properties are determined as a difference between sales revenue and the carrying amounts of those items and recognised in profit or loss.

3.11. Intangible assets

Intangible assets are the Company's assets which are without physical substance and identifiable, can be reliably measured and from which future economic benefits are expected.

Intangible assets are initially recognised at purchase price or production cost.

The expenses associated with the purchase of leasehold are also recognised by the Company as intangible assets. The expenses associated with purchase of such right on the secondary market (from other entities) and the expenses associated with conferring such rights by relevant state authorities are recognised as intangible assets and amortised over the period in which such rights may be exercised by the Company. The leasehold fees are recognised as operating expenses.

Intangible assets are amortised according to the rates which reflect the estimated period of their useful lives. Estimates of useful life are reviewed every year. The Company does not own any intangible assets whose useful lives are indefinite. Intangible assets with definite useful lives are amortised on a straight-line basis. The following useful lives are used for particular intangible assets:

Item	Useful lives
Licences for software	2 – 10 years
Leasehold rights	25 years

Intangible assets are tested for impairment if there are indications of impairment and any impairment is determined at the end of each reporting period. Rules governing the determining of impairment are set out in note 3.12. Effects of the impairment of intangible assets and their amortisation are carried to other operating expenses.

According to the principle of prudence, low value intangible assets are carried on a one-off basis to profit or loss in the period in which the expense was incurred.

Gains or losses from the sale/liquidation or discontinued use of intangible assets are determined as the difference between sales revenue and the carrying amounts of those assets and are recognised in profit or loss.

At the end of the reporting period, intangible assets are measured at cost less amortisation and impairment losses, if any.

3.12. Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are substantially independent from cash flows generated by other assets, the Company analyses the group of cash-generating assets to which the asset belongs. If it is possible to identify a reliable and uniform allocation basis, fixed assets held by the Company are allocated to specific cash-generating units or to the smallest groups of cash-generating units for which reliable and uniform allocation bases can be identified.

Recoverable amount is the higher of fair value less costs to sell or value in use. The latter is equivalent to the present value of estimated future cash flows discounted at a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to an asset.

If the recoverable amount is less than the carrying amount of an assets (or a cash-generating unit), the carrying amount of the asset or the unit is reduced to the recoverable amount. An impairment loss is immediately recognised as an expense of the period in which it occurred, unless the asset is carried at revalued amount (in which case, such impairment loss is treated as a revaluation decrease).

If the impairment loss is subsequently reversed, the net value of the asset (or the cash-generating unit) is increased to the new estimated recoverable value, however not higher than the carrying amount of the asset as it would have been established had impairment not been identified in the past years. Any reversal of impairment is recognised immediately in the profit or loss, unless the asset is carried at a revalued amount – in this case, the reversal will be treated as a revaluation increase.

3.13. Long-term financial assets, including investments in subsidiaries

Long-term financial assets, including investments in subsidiaries, are measured at historical cost net of impairment, if any. The carrying amount of such assets is reviewed each time to find out whether it does not exceed the amount of future economic benefits. If the carrying amount exceeds the amount of anticipated economic benefits it is reduced to the amount of net sales price. Impairment losses are recognised in financial expenses. The rise in the value of an investment directly associated with a previous decrease in the value recognised in financial expenses is disclosed up to the amount of these expenses as financial income.

3.14. Leasing

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Any other types of lease are treated as an operating lease.

Assets held under a finance lease are recognised as assets of the Company and measured at their fair value at the inception of the lease, however not higher than the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant interest rate on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's accounting policy on borrowing costs as set out in note 3.5.

Operating lease payments are recognised in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals under operating lease are recognised as an expense in the period in which they are incurred.

3.15. Inventories

Inventories are the assets held for sale in the ordinary course of business, assets in the production process for sale and materials that are consumed in the production process or service provision. Inventories include materials, merchandise, finished goods and work in progress.

Materials and merchandise are initially measured at purchase price. At the end of the reporting period, materials and merchandise are measured on a prudent basis; i.e. these categories are measured at purchase price or achievable sales price, depending on which is lower.

Work in progress is initially measured at actual production cost. At the end of the reporting period, work in progress and finished goods are measured on a prudent basis.

Materials, merchandise and finished goods are written down at the discretion of the Company.

Inventory disbursement is recorded in accordance with the principles of specific identification of items intended for specific projects or on a first-in-first-out basis for other inventories and is recognised in cost of sales. Write-downs for inventories resulting from prudent valuation and write-downs for items in excess of anticipated demand and their reversals are recognised under other operating expenses.

3.16. Non-current assets held for sale

Non-current assets held for sale are the assets that meet all the following criteria:

- an appropriate level of management must be committed to sell the asset;
- assets are available for immediate sale in their present condition;
- an active programme to locate a buyer must have been initiated;
- the completion of the sale is highly probable within 12 months of classification as held for sale;
- sales price is reasonable in relation to its present fair value;
- it is unlikely that plan will be significantly changed.

The classification change is reflected in the reporting period in which the aforementioned criteria have been satisfied. If the abovementioned criteria are satisfied after the end of the reporting period, an asset is not reclassified at the end of the financial year preceding the event.

No further depreciation will be recorded once an asset is classified as held-for-sale. Assets held for sale (excluding, *inter alia*, financial assets and investment property) are measured at the lower of carrying amount and fair value less costs to sell.

In the case of any subsequent increase in the fair value less costs to sell, a gain is recognised to the extent this does not exceed the cumulative impairment loss.

3.17. Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition.

3.17.1. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the short term; or
- it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be classified as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset is a part of the group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis in accordance with the Company's documented risk management or investment strategy, and the information on the grouping is provided internally on that basis; or
- the financial asset is a part of the contract containing one or more embedded derivatives and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets as at fair value through profit or loss are stated at fair value with any gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

3.17.2. Assets held to maturity

Financial assets (excluding derivatives) with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified as financial assets held to maturity. They are measured at amortized cost using the effective interest method, less any impairment with revenue recognised on an effective yield basis.

Effective interest method is used to calculate the amortised cost of a financial asset or liability and to allocate the interest expense over the relevant period. The effective interest rate is the rate which discounts future cash payments through the expected life of the liability or, where appropriate, a shorter period.

3.17.3. Loans and receivables

Loans and receivables are the trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.17.4. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that as a result of the events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables includes the Company's past experience of collecting payments and observable changes in national or local economic situations that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss under the item other operating income/expenses.

Except for the financial instruments available for sale, if in a subsequent period the amount of the impairment loss decreases and the decrease can be reasonably related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.17.5. Derecognition of financial assets

Financial assets are derecognised by the Company only when the contractual rights to receive cash flows from the financial assets have expired or the financial assets together with substantially all the risks and rewards of ownership have been transferred to another entity. If substantially all the risks and rewards of ownership are neither transferred nor retained by the Company but control is retained, the retained share in the asset and the related payment obligation is recognised. If the Company retains substantially all the risks and rewards of a transferred financial asset, the Company continues to recognise the transferred financial asset.

3.18. Financial liabilities and equity instruments issued by the Company

Debt and equity instruments are classified as either financial liabilities or equity depending on the substance of contractual arrangements.

3.19. Equity instruments

An equity instrument is any contract that evidences an interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Puttable financial instruments will be presented as equity only if all of the following criteria are met:

- (a) the holder is entitled to a pro-rata share of the entity's net assets on liquidation;
- (b) the instrument is in the class of instruments that is the most subordinate and all instruments in that class have identical features;
- (c) the instrument has no other characteristics that would meet the definition of a financial liability; and
- (d) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of the instrument itself). Profit or loss or change in recognised net assets is measured for this purpose in accordance with relevant IFRSs. The entity must have no other instruments that would substantially restrict or fix the return to the holders of the puttable financial instruments.

3.20. Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

3.20.1. Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term;
- it is a part of a portfolio of financial instruments that are managed together by the Company according to a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated or effective as a hedging instrument.

A financial liability other than held for trading may be designated as at fair value through profit or loss on initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms a part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it is a part of a contract containing one or more embedded derivatives and under IAS 39, the entire contract (asset or liability) may be designated as an item as at fair value through profit or loss.

Financial liabilities as at fair value through profit or loss are stated at fair value with any gains or losses recognised in profit or loss. The gain or loss incorporates any interest paid on the financial liability.

3.20.2. Other financial liabilities

Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

3.20.3. Derecognition of financial liabilities

A financial liability is derecognised by the Company only when it is discharged, cancelled or expires.

3.21. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation but the amount and timing are uncertain.

The amount recognised as a provision reflects the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows required to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain the reimbursement will be received and the amount of the receivable can be measured reliably.

3.22. Onerous contracts

Present obligations arising under onerous contracts are recognised as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3.23. Derivative instruments

Derivative financial instruments are initially recognised at fair value on the contract date and are subsequently remeasured to their fair value at each balance date. The resulting gain or loss is recognised immediately in the income statement.

Derivative financial instruments are presented as fixed assets or long-term liabilities if a maturity is greater than 12 months and they are not expected to be realised or settled within 12 months. Other derivative financial instruments are recognised as current assets or short-term liabilities.

4. Key accounting principles and sources of estimation uncertainty

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

4.1. Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2. Useful economic lives of fixed assets

As set out in notes 3.9 and 3.11, the Company verifies useful economic lives of tangible and intangible assets at the end of each annual reporting period.

4.3. Fair value of derivatives and other financial instruments

The Management Board use their judgment in selecting an appropriate valuation technique for financial instruments that are not traded in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

4.4. Provisions for litigations

Lawyers and the Company's Management Board make detailed analyses of the number and nature of litigations and potential risks relating to them. Based on these analyses, they decide about the necessity to account for the effects of such proceedings in the Company's accounting records, and the amount of the provision.

4.5. Provisions for warranty claims

Provisions for warranty claims are created for construction contracts in respect of which warranty has been given by the Company depending on the amount of revenue and taking account of subcontractors' liability for the scope of works they have been entrusted with. In 2013, the ratio of provisions to revenue under contracts was 0.6%. The amount of provisions may increase or decrease on the basis of inspection of performed construction works in subsequent years covered by warranty.

Provisions for warranty claims are charged to the cost of a contract based on the amount of direct expenses that have been involved. Provisions for warranty claims are created at the Company with a breakdown into individual contracts. They are maintained until the expiry date of warranty rights or claims taking account of the occurrence probability.

If a created provision is not utilised (after expiry date), the provision is released by reducing a cost of sales.

Depending on the date by which they are maintained, provisions are presented in the statement of financial position as long-term or short-term provisions.

4.6. Construction contracts accounted for using percentage-of-completion method

Revenues from a construction service that has not been completed are recognised by the Company under the percentage-of-completion method. Contract budgets are prepared for each construction contract. Budgets are updated twice a year on the basis of month-end closes for April and October. The stage of completion of a contract is determined on the basis of contract budgets by calculating the proportion that contract costs incurred for the work performed to date bear to the estimated total costs of the contract. When contracts are signed but their budgets not approved, the contracts are measured using the zero-profit method.

Changed cost and revenue estimates are used to determine the amount of costs and revenues recognised in the profit or loss in the reporting period in which they occur and in subsequent periods.

4.7. Deferred tax assets

The Company's Management Board decide about the recognition of deferred tax assets based on the forecasts for subsequent years.

5. Revenue

The following table presents the Company's sales revenue:

	(PLN)	
	Year ended 31/12/2013	Year ended 31/12/2012
Revenue from the sale of goods and raw materials	17,846,158.65	3,241,609.35
Revenue from the rendering of services	23,658,273.43	12,680,327.58
Revenue from construction contracts	361,291,341.94	312,325,151.21
Total	402,795,774.02	328,247,088.14

The sales revenues in 2013 and 2012 were entirely generated from the domestic market. The Company executed projects in the entire territory of Poland. The largest portion of sales was contributed by the revenue from construction contracts. Sales volume depended on tenders announced for the urban and rail infrastructure construction industry. ZUE presented one aggregate operating segment: engineering construction and assembly services.

The scope of activities includes:

- design, construction and comprehensive modernisation of urban transport systems;
- design, construction and comprehensive modernisation of railway lines; and
- services related to power networks and power electronics.

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

6. Operating expenses

	(PLN)	
	Year ended 31/12/2013	Year ended 31/12/2012
Change in products	-12,010,073.52	-4,102,208.23
Cost of products manufactured for own use	-21,304,856.35	0.00
Depreciation and amortization	6,974,295.16	3,151,380.24
Consumption of raw and other materials	125,101,385.39	115,518,535.76
Contracted services	216,752,689.80	169,909,966.61
Cost of employee benefits	56,736,672.20	36,846,581.36
Taxes and charges	1,362,688.75	618,742.56
Other expenses	12,125,632.18	7,212,319.30
Value of goods and materials sold	11,173,162.22	1,568,555.58
Total	396,911,595.83	330,723,873.18

6.1. Depreciation and amortisation

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Depreciation of property, plant and equipment	6,339,554.02	2,762,404.03
Amortisation of intangible assets	545,649.52	388,976.21
Depreciation of investment in real property	366,919.32	0.00
Total depreciation and amortisation	7,252,122.86	3,151,380.24

7. Other operating income

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Gain on disposal of assets:	0.00	0.00
Gain on disposal of non-current assets	0.00	0.00
Other operating income:	5,326,989.30	1,436,179.42
Received damages	1,092,200.17	1,106,962.59
Release of write-downs of receivables	3,573,634.24	0.00
Refund of costs of court proceedings	74,306.18	78,841.00
Surplus inventory	0.00	22,424.70
Other	586,848.71	227,951.13
Total	5,326,989.30	1,436,179.42

Other operating income includes revenues and gains indirectly related to the Company's operating activities. This category includes gain on disposal of property, plant and equipment, damages paid in connection with a refund of court costs, tax overpayment, except for corporate income tax, and damages paid in connection with a loss of the Company's insured assets.

Other operating income also includes the reversals of write-downs of receivables and impairment losses on non-current assets.

8. Other operating expenses

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Loss on disposal of assets:	138,483.97	204,080.04
Loss on disposal of non-current assets	138,483.97	204,080.04
Other operating expenses	2,819,055.03	907,179.22
Donations	1,557.49	3,900.00
Damages paid	484,446.12	5,197.13
Costs of litigations	107,735.91	202,190.51
Damage suffered	0.00	229,883.58
Costs of performance bond	112,707.93	0.00
Costs of bonds and guarantees for completed projects	0.00	434,145.59
Settlement of stock shortages	0.00	17,359.67
Creation of write-downs of receivables	1,547,596.97	0.00
Remission of debt	0.00	4,364.00
Penalties	83,801.69	0.00
Contributions to trade organisations	0.00	8,200.00
Other	481,208.92	1,938.74
Total	2,957,539.00	1,111,259.26

Other operating expenses include expenses and losses indirectly related to the Company's operation. This category includes losses on disposal of property, plant and equipment and monetary and non-monetary donations to other entities, including not-for-profit organisations.

Other operating expenses also include the costs of write-downs of receivables and impairment losses on non-current assets.

9. Financial income

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Interest income:	1,525,138.01	1,394,713.80
Interest on bank deposits	1,480,038.72	112,509.07
Interest on loan	35,648.39	22,674.26
Interest on receivables	9,450.90	1,259,530.47
Foreign exchange gains	49,066.55	0.00
Gain on disposal of investments	0.00	0.00
Other	1,842,535.23	1,827,544.36
Discount of long-term items	1,789,941.89	1,333,128.95
Measurement of derivative instruments	0.00	0.00
Realisation of financial instruments	0.00	0.00
Prepayment discount	0.00	404,481.21
Sureties	0.00	89,934.20
Other	52,593.34	0.00
Total	3,416,739.79	3,222,258.16

Financial income includes income from dividends and interest on deposits and investments in various types of financial instruments. Financial activity also includes foreign exchange gains.

10. Financial expenses

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Interest expenses:	1,881,066.75	3,046,690.50
Interest on bank overdrafts and borrowings	1,459,207.40	2,516,913.44
Interest on obligations under finance lease	356,098.77	321,161.60
Interest on loan	0.00	0.00
Interest on trade and other payables	65,760.58	208,615.46
Other financial expenses:	356,527.73	459,581.65
Foreign exchange loss	250.91	78,134.99
Discount of long-term items	344,911.34	381,446.66
Realisation of financial instruments	0.00	0.00
Cost of bank commission relating to capital expenditure	0.00	0.00
Other	11,365.48	0.00
Total	2,237,594.48	3,506,272.15

Financial expenses include expenses related to external finance, interest paid under finance lease and other financial expenses. Financial expenses also include foreign exchange losses.

11. Corporate income tax

11.1. Corporate income tax recognised in profit or loss

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Current income tax:	3,983,958.00	0.00
Tax currently payable	3,983,958.00	0.00
Deferred income tax:	-2,192,879.99	-132,213.78
Deferred income tax related to the occurrence and reversal of temporary differences	-2,192,879.99	-132,213.78
Total tax expense/income	1,791,078.01	-132,213.78

The tax currently payable is calculated pursuant to applicable tax laws. According to these laws, taxable profit (loss) differs from accounting net profit (loss) because it excludes items of income or expense that are not taxable or deductible and items of income or expense that are never taxable. The Company's liability for current tax is calculated using tax rates applicable during the fiscal year in question. Since 2004, the rate applicable pursuant to amended regulations has been 19%. Current regulations do not provide for any differences in tax rates in future periods.

The Company is subject to general regulations governing corporate income tax. The Company neither forms a tax capital group nor operates in a Special Economic Zone. Both the tax and balance sheet years coincide with calendar years.

Differences between the nominal and effective tax rates are as follows:

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Profit from operations	9,432,773.80	-2,435,878.87
Income tax expense calculated at 19%	1,792,227.02	-462,816.98
Tax effect of expenses that are not tax-deductible under tax regulations and of revenue not classified as revenue under tax regulations	-1,149.01	330,603.20
Tax effect of tax losses deducted in the period	0.00	0.00
Adjustments recognised in the current year in relation to the current and deferred tax of prior years	0.00	0.00
Other	0.00	0.00
Income tax expense recognised in the statement of comprehensive income	1,791,078.01	-132,213.78

11.2. Current tax assets and liabilities

(PLN)

	As at 31/12/2013	As at 31/12/2012
Current tax assets		
Tax refundable	0.00	0.00
Total	0.00	0.00
Current tax liabilities		
Tax payable	2,942,830.00	0.00
Total	2,942,830.00	0.00

11.3. Deferred tax balance

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Deferred tax balance at the beginning of the year	-1,708,207.01	-1,840,420.79
Merger opening balance	3,849,482.00	0.00
Temporary differences relating to deferred tax assets:		
Provisions for expenses and accruals	6,017,636.00	1,390,333.64
Discount of receivables	124,401.00	309,169.70
Obligations under lease	932,454.00	537,982.46
Interest	0.00	186,758.48
Other, including allowances for receivables	345,473.86	973.85
Tax work in progress	10,487,932.00	8,475,576.22
Temporary differences relating to deferred tax liabilities:		
Measurement of long-term contracts	8,933,054.00	10,814,947.72
Property, plant and equipment	10,721,355.00	2,893,371.98
Discount of payables	365,799.00	154,400.21
Interest	0.00	258,188.61
Other	-60,688.50	83.26
Unused tax losses and other tax credits		
Tax losses	4,007,399.00	1,511,990.42
Deferred tax balance at the end of the year	1,955,776.36	-1,708,207.01
Change in deferred tax, including:	-185,498.63	132,213.78
- recognised in income	1,936,684.01	132,213.78
- recognised in equity	-2,122,182.64	0.00

Deferred tax recognised in equity is a result of the measurement of lease of the land measured at fair value in connection with recognising the merger in separate records.

12. Profit (loss) per share

	(PLN)	
	Year ended 31/12/2013	Year ended 31/12/2012
Basic profit (loss) per share	0.35	-0.10
Total basic profit (loss) per share	0.35	-0.10
Diluted profit (loss) per share	0.35	-0.10
Total diluted profit (loss) per share	0.35	-0.10

12.1. Basic profit (loss) per share

The profit (loss) and weighted average number of ordinary shares used in the calculation of basic profit per share:

	(PLN)	
	Year ended 31/12/2013	Year ended 31/12/2012
Profit (loss) per share for the financial year attributable to the shareholders of the parent	0.35	-0.10
Total profit (loss) used in the calculation of basic profit per share	7,641,695.79	-2,303,665.09
Weighted average number of ordinary shares used in the calculation of profit (loss) per share	22,033,866	22,000,000

12.2. Diluted profit (loss) per share

The profit (loss) used in the calculation of diluted profit (loss) per share does not differ from the profit (loss) used in the calculation of basic profit (loss) per share as at 31 December 2013.

13. Property, plant and equipment

(PLN)

	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total fixed assets	Fixed assets under construction	Prepaid fixed assets under construction	TOTAL
Gross value									
Balance at 1 Jan 2013	12,287.67	1,358,516.00	11,118,105.35	21,345,563.99	954,192.17	34,788,665.18	0.00	0.00	34,788,665.18
Increases in connection with the merger (as at 01/01/2013)	0.00	21,476,154.29	15,616,375.17	10,788,978.98	1,125,696.55	49,007,204.99	1,274,289.61	0.00	50,281,494.60
Additions	0.00	790,748.98	645,944.03	12,172,479.00	105,256.98	13,714,428.99	2,562,351.67	0.00	16,276,780.66
Liquidation	0.00	463,608.64	207,570.38	4,693,456.34	230,413.92	5,595,049.28	2,428,165.01	0.00	8,023,214.29
Balance at 31 Dec 2013	12,287.67	23,161,810.63	27,172,854.17	39,613,565.63	1,954,731.78	91,915,249.88	1,408,476.27	0.00	93,323,726.15
Depreciation and impairment									
Balance at 1 Jan 2013	0.00	302,315.28	3,966,980.06	5,965,347.72	415,401.40	10,650,044.46	0.00	0.00	10,650,044.46
Increases in connection with the merger (as at 01/01/2013)	0.00	3,612,264.88	5,105,821.55	3,799,043.57	676,191.86	13,193,321.86	0.00	0.00	13,193,321.86
Elimination on disposal of assets	0.00	127,543.13	170,470.37	702,251.96	24,748.57	1,025,014.03	0.00	0.00	1,025,014.03
Depreciation expense	0.00	766,959.74	2,541,964.96	2,878,821.53	152,041.57	6,339,787.80	0.00	0.00	6,339,787.80
Balance at 31 Dec 2013	0.00	4,553,996.77	11,444,296.20	11,940,960.86	1,218,886.26	29,158,140.09	0.00	0.00	29,158,140.09
Carrying amount									
Balance at 1 Jan 2013	12,287.67	1,056,200.72	7,151,125.29	15,380,216.27	538,790.77	24,138,620.72	0.00	0.00	24,138,620.72
Balance at 31 Dec 2013	12,287.67	18,607,813.86	15,728,557.97	27,672,604.77	735,845.52	62,757,109.79	1,408,476.27	0.00	64,165,586.06

Total property, plant and equipment of the Company as at 31 December 2013 amounted to PLN 64.2 (compared to PLN 24.1m in 2012).

No impairment losses were recognised by the Company.

As at 31 December 2013, the value of liabilities incurred to purchase property, plant and equipment was PLN 32.9 thousand. As at 31 December 2013, the gross carrying amount of fully depreciated property, plant and equipment still used by the Company was PLN 3.3m.

13.1. Assets pledged as security

The movables (plant and equipment) with a net carrying amount of PLN 11m were pledged to secure the bank borrowing under the agreement no. WAR/2001/11/198/CB. The facility was intended for the financing and refinancing of the following contract: "Construction of the tram line connecting the Brożka Street and the Jagiellonian University Campus together with the traffic control and monitoring system." The facility was repaid on 7 January 2014 and the security was released.

14. Investment property

	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	Total fixed assets	Fixed assets under construction	Prepaid fixed assets under construction	TOTAL
<i>(PLN)</i>										
Gross value										
Balance at 1 Jan 2013	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Increases in connection with the merger (as at 01/01/2013)	125,550.00	5,032,658.77	5,464,069.78	0.00	0.00	0.00	10,622,278.55	0.00	0.00	10,622,278.55
Additions	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Liquidations	0.00	0.00	43,266.00	0.00	0.00	0.00	43,266.00	0.00	0.00	43,266.00
Balance at 31 Dec 2013	125,550.00	5,032,658.77	5,420,803.78	0.00	0.00	0.00	10,579,012.55	0.00	0.00	10,579,012.55
Depreciation and impairment										
Balance at 1 Jan 2013	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Increases in connection with the merger (as at 01/01/2013)	0.00	661,997.97	933,600.06	0.00	0.00	0.00	1,595,598.03	0.00	0.00	1,595,598.03
Elimination on disposal of assets	0.00	0.00	43,266.00	0.00	0.00	0.00	43,266.00	0.00	0.00	43,266.00
Depreciation expense	0.00	165,648.36	201,270.96	0.00	0.00	0.00	366,919.32	0.00	0.00	366,919.32
Balance at 31 Dec 2013	0.00	827,646.33	1,091,605.02	0.00	0.00	0.00	1,919,251.35	0.00	0.00	1,919,251.35
Carrying amount										
Balance at 1 Jan 2013	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Balance at 31 Dec 2013	125,550.00	4,205,012.44	4,329,198.76	0.00	0.00	0.00	8,659,761.20	0.00	0.00	8,659,761.20

14.1. Intangible assets

Structure of intangible assets:

	(PLN)	
	As at 31/12/2013	As at 31/12/2012
Acquired concessions, patents, licenses and similar assets, including:	1,846,496.73	801,579.84
- software	1,846,496.73	801,579.84
Other intangible assets, including:	9,376,019.14	827,015.24
- leasehold	9,376,019.14	827,015.24
Total	11,222,515.87	1,628,595.08

Movements of intangible assets:

	(PLN)		
	Leasehold	Other intangible assets – software	Total
Gross value			
Balance at 1 January 2013	1,204,391.32	1,700,961.72	2,905,353.04
Increases in connection with the merger (as at 01/01/2013)	9,136,800.00	283,506.91	9,420,306.91
Additions		1,318,346.96	1,318,346.96
Disposals or classification as held for sale	99,225.00	38,470.44	137,695.44
Balance at 31 December 2013	10,241,966.32	3,264,345.15	13,506,311.47
Amortisation and impairment			
Balance at 1 January 2013	377,376.08	899,381.88	1,276,757.96
Increases in connection with the merger (as at 01/01/2013)	334,124.08	169,537.56	503,661.64
Amortisation expense	160,355.02	386,786.62	547,141.64
Disposals or classification as held for sale	5,908.00	37,857.64	43,765.64
Balance at 31 December 2013	865,947.18	1,417,848.42	2,283,795.60
Carrying amount			
Balance at 1 January 2013	827,015.24	801,579.84	1,628,595.08
Balance at 31 December 2013	9,376,019.14	1,846,496.73	11,222,515.87

No impairment losses were recognised by the Company.

15. Investments in and advances to subsidiaries

15.1. Information on the Company's subsidiaries

At the end of the reporting period, ZUE held interests in its subsidiaries. The Capital Group was created on 6 January 2010 (purchase of an 85% interest in Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. from the State Treasury).

On 20 December 2013, ZUE (the "Acquiring Company") merged with Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. (the "Acquired Company") by entering the transaction into the relevant register. The transaction was described in item 15.2.

The Issuer's subsidiaries include:

- Biuro Inżynierskich Usług Projektowych Sp. z o.o. of Cracow whose principal activities are the preparation of designs for the tram and railway industry;
- Railway Technology International Sp. z o.o. has been established under the notarial deed of 20 July 2011 in the Notary's Office in Warsaw, al. Jerozolimskie 29/26 (Rep. A no. 2582/2011). Cracow is the company's

registered office. The company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry no. KRS 0000397032;

- Biuro Projektów Komunikacyjnych Sp. z o.o. w Poznaniu of Poznań whose core business consists of the preparation of comprehensive design documentation including feasibility studies, concepts, basic designs including construction designs, tender materials and detailed construction designs for high complexity investments in the tram and railway industry;
- Railway Technology International Germany GmbH has been established under the notarial deed of 8 May 2012 in the Notary's Office in Radebeul, Rathenaustrasse 6, Germany (no. 1090/2012). Hamburg (Germany) is the company's registered office (subsidiary indirectly through RTI).

Name	Core business	Registered office and principal place of business	Shares		Value at historical cost	
			At 31/12/2013 %	At 31/12/2012 %	At 31/12/2013 PLN	At 31/12/2012 PLN
Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A.	Tram and railway infrastructure construction services	Cracow	Merger effected on 20 Dec 2013	87%	Merger effected on 20 Dec 2013	78,504,917.00
Biuro Inżynierskich Usług Projektowych Sp. z o.o.	Designs for tram and railway industry	Cracow	49%	49%	655,099.68	655,099.68
Railway Technology International Sp. z o.o.	Not operating	Cracow	51%	51%	28,585.50	28,585.50
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Comprehensive design documentation	Cracow	84%	62%	2,416,607.20	1,416,607.20
Total investments in subsidiaries					3,100,292.38	80,605,209.38

On 20 June 2013, the District Court Poznań – Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register issued a decision on the increase of the share capital of BPK Poznań from PLN 747,500 to PLN 1,747,500.

The number of shares held by ZUE in RTI and BIUP at the end of 2013 did not change when compared to the end of 2012.

Associates:

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

On 30 December 2013, BPK Poznań sold 32.32% shares in BPK Gdańsk for PLN 15,240 and consequently lost control of the company.

The direct interest of BPK Poznań in BPK Gdańsk as at 31 December 2013 was 49%.

The indirect interest of ZUE in BPK Gdańsk as at 31 December 2013 was 41%.

15.2. Merger of ZUE and PRK

Legal aspect

On 15 July 2013, the Management Board of the Company decided about the merger of ZUE and PRK. On 6 December 2013, the Extraordinary General Meeting of ZUE resolved under the resolution no. 4 to merge ZUE

with PRK. The merger took place on 20 December 2013 by registering the transaction with the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, pursuant to Art. 492 § 1.1 of the Act; i.e. by a transfer of all the assets of PRK to ZUE in exchange for ZUE shares issued to the shareholders of PRK taking account of Art. 514 of the Act whereby ZUE, a shareholder of PRK, did not acquire own shares in exchange for the shares of PRK.

The merger took place pursuant to Art. 492 § 1.1 of the Act; i.e. by a transfer of all the assets of the Acquired Company to the Acquiring Company in exchange for the Acquiring Company shares issued to the shareholders of the Acquired Company taking account of Art. 514 of the Act whereby the Acquiring Company was excluded as a shareholder of the Acquired Company.

According to Art. 493 § 1 and Art. 493 § 2 of the Act, Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. was dissolved upon the removal from the register; i.e. on 20 December 2013. According to Art. 494 § 1 of the Act, ZUE acquired on that date all the rights and obligations of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., including the parties to the contracts performed by Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. prior to the merger. The Management Board of ZUE confirmed all the powers of attorney granted to the employees of PRK w Krakowie S.A. for the purposes of the contracts performed by the company.

Changes in the Group's organisational structure related to the merger effected in 2013 influenced its activities. The merger was aimed at a more efficient use of the companies' potential and the achievement of synergies including a better use of their capacity to deliver services and the achievement of economic and financial synergies, including the reduction of business costs (including the reduction of costs related to the maintenance of a separate entity), simplification of the Group's structure and a more efficient management of the Capital Group.

The cooperation as part of one entity would enable the execution of major investments, more flexible margins and completion dates, better service quality management and the achievement of a position of independent contractor.

Accounting aspect

ZUE merged with PRK on 20 December 2013. The control of PRK was acquired by ZUE in 2010.

The goodwill of PLN 31,171,913.65 and the leasehold value (difference in the fair value of the net assets at acquisition) of PLN 15,956,312.00 (adjusted for a deferred tax asset) disclosed in the separate financial statements at the merger date were calculated as at the date the control of PRK was acquired by ZUE in 2010 and follow from the consolidated financial statements. Changes in interests resulting from the merger were accounted for as changes in equity.

ZUE and PRK merged under joint control. Since the control of PRK was acquired in the past years, the Company decided to present the financial data of PRK in the statement of comprehensive income for the period from 1 January 2013 to 31 December 2013 despite the fact that the formal merger took place on 20 December 2013.

The statement of financial position presents the financial data of the merged companies as at 31 December 2013 and the statement of comprehensive income includes PRK's profit (loss) for 12 months.

16. Other assets

(PLN)

	Current		Non-current	
	As at 31/12/2013	As at 31/12/2012	As at 31/12/2013	As at 31/12/2012
Prepaid expenses	1,938,211.90	1,855,616.99	0.0	0.00
Other long-term receivables	0.0	0.00	27,435.88	0.00

Short-term prepaid expenses mainly include items such as property insurance as well as performance bonds and defects liability bonds.

17. Inventories

	(PLN)	
	As at 31/12/2013	As at 31/12/2012
Materials	16,703,507.85	15,300,311.09
Work in progress	1,103,032.14	1,043,518.01
Finished goods	203,528.75	204,274.40
Total	18,010,068.74	16,548,103.50

At the end of the reporting period, inventories amounted to PLN 18.0m (compared to PLN 16.5m in 2012). High inventory level was related to advanced construction works.

18. Trade and other receivables

(PLN)

	As at 31/12/2013	As at 31/12/2012
Trade receivables	135,087,028.80	95,734,651.70
Trade receivables write-downs	-13,132,656.85	-86,666.29
Receivables from the state budget other than corporate income tax	0.00	0.00
Receivables under contracts (measurement)	47,016,071.48	56,920,777.45
Advance payments	2,526,025.56	0.00
Other receivables	199,118.59	135,276.19
Total trade and other receivables	171,695,587.58	152,704,039.05

18.1. Trade receivables

Total trade receivables (taking account of discounts) as at 31 December 2013 amounted to PLN 135.1m (compared to PLN 95.7m at the end of 2012). The balance of trade receivables do not include past due receivables on which write-downs were recognised.

Ageing analysis of receivables that are past due but not impaired:

(PLN)

	As at 31/12/2013	As at 31/12/2012
Not past due receivables	93,752,397.37	69,165,684.88
Receivables that are past due but not impaired	28,201,974.58	26,482,300.53
1-30 days	23,337,172.36	20,127,676.84
31-60 days	721,038.58	2,742,253.62
61-90 days	30,154.03	181,411.72
91-180 days	3,599,364.35	416,650.89
181-360 days	49,979.65	2,785,573.05
360 + days	464,265.61	228,734.41

Past due receivables on which write-downs were recognized	13,132,656.85	86,666.29
1-30 days	0.00	0.00
31-60 days	457,089.07	0.00
61-90 days	18,800.20	0.00
91-180 days	3,177,395.06	0.00
181-360 days	4,914,421.44	0.00
360 + days	4,564,951.08	86,666.29
Total trade receivables (gross)	135,087,028.80	95,734,651.70
Write-downs on trade receivables	-13,132,656.85	-86,666.29
Total trade receivables (net)	121,954,371.95	95,647,985.41

Change in allowances for doubtful debts

	(PLN)	
	Year ended 31/12/2013	Year ended 31/12/2012
Balance at the beginning of the year	86,666.29	86,666.29
Increases in connection with the merger (as at 01/01/2013)	4,468,269.87	0.00
Impairment losses recognised on receivables	856,859.10	0.00
Impairment losses not entered in profit or loss	7,820,910.36	0.00
Amounts written off as uncollectible	0.00	0.00
Amounts recovered during the year	-41,014.02	0.00
Impairment losses reversed	-59,034.75	0.00
Unwind of discount	0.00	0.00
Balance at the end of the year	13,132,656.85	86,666.29

18.2. Long-term receivables

	(PLN)	
	As at 31/12/2013	As at 31/12/2012
Trade receivables	0.00	39,577,093.78
Write-down of doubtful debts	0.00	0.00
Discount of long-term receivables	0.00	-1,620,373.75
Total	0.00	37,956,720.03

Trade receivables

	(PLN)
	Gross value of long-term receivables
Balance at the beginning of the year	37,956,720.03
Increases	0.00
Decreases	37,956,720.03
Transfer to short-term receivables	37,956,720.03
Discount	0.00
Balance at the end of the year	0.00

19. Share capital

(PLN)

Share capital

	<u>As at 31/12/2013</u>	<u>As at 31/12/2012</u>
Registered capital	5,757,520.75	5,500,000.00
Amount recognised in the financial statements	5,757,520.75	5,500,000.00

Share capital as at 14.03.2014

(PLN)

Class / issue	Type of shares	Type of preference	Limit on rights to shares	Number of shares	Value of class/issue at par value	Contribution	Registration date	Right to dividend (as of)
Class A	Ordinary bearer shares	-	-	16,000,000	4,000,000.00	Contribution in kind	12 July 2002	12 July 2002
Class B	Ordinary bearer shares	-	-	6,000,000	1,500,000.00	Fully paid up in cash by way of issue	19 October 2010	19 October 2010
Class C	Bearer – “Merger shares”	-	-	1,030,083	257,520.75	Fully paid up in cash by way of issue	20 December 2013	20 December 2013
Total				23,030,083	5,757,520.75			

20. Retained earnings

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Balance at the beginning of the year	80,551,515.00	81,834,407.38
Opening balance adjustment	-1,020,772.71	0.00
Opening balance restatement	79,530,742.29	81,834,407.38
Net profit distribution	0.00	18,718,177.90
Reserve funds	0.00	18,718,177.90
Capital reserve	0.00	0.00
Coverage of loss brought forward	0.00	0.00
Annual profit (loss)	7,632,651.59	-1,282,892.38
Correction of errors	0.00	-1,020,772.71
Payment of dividend for prior year	0.00	0.00
Interim dividend for current year	0.00	0.00
Change in net profit according to the IFRS	0.00	0.00
Equity changes resulting from the merger	5,677,332.94	0.00
Balance at the end of the year	92,840,726.72	79,530,742.29

The retained earnings of prior years entirely comprise the earnings retained at the Company on the basis of the decision made by its shareholders and the consequences of the IFRS implementation. The retained earnings at the end of 2013 include:

- Reserve funds (without share premium account):	PLN 40,666,027.72
- Capital reserve:	PLN 39,434,845.22
- Profit (loss) brought forward:	PLN -570,130.75
- Comprehensive income for the current year:	PLN 7,632,651.59
- Equity changes resulting from the merger:	PLN 5,677,332.94

The Company creates a capital reserve according to the articles of association. The Company's profit to be distributed in subsequent periods or used to cover other expenses may be allocated to capital reserve.

According to the agreement no. 07/164/11/Z/IN concluded on 28 June 2011 with BRE Bank S.A., the Company must not pay dividends whose amount exceeds the net profit for the prior financial year, make advance payments on dividends or allocate dividends to reserve funds.

21. Share premium account

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Balance at the beginning of the year	85,360,680.68	85,360,680.68
Share issue	9,023,527.08	0.00
Share issue costs	547,542.47	0.00
Balance at the end of the year	93,836,665.29	85,360,680.68

ZUE raised cash of PLN 88.5m through the issue of shares on 1 October 2010. The costs of class B shares issue in 2010 amounted to PLN 3.1m.

The Company did not launch any new issue of shares in 2012 or 2011.



In 2013, the Company launched a new issue of class C shares. The agio generated by the Company on 6 December 2013 was PLN 9,023.5 thousand. The costs of class C shares issue in 2013 amounted to PLN 547.5 thousand.

22. Bank borrowings and other debt instruments and other financing sources

(PLN)

	As at 31/12/2013	As at 31/12/2012
Long-term	9,550,685.66	22,840,167.24
Bank borrowings (i)	5,111,111.22	20,700,811.30
Loans from:		
related entities	0.00	0.00
other entities	0.00	0.00
Obligations under finance lease	4,439,574.44	2,139,355.94
Short-term	40,376,960.45	39,133,333.52
Overdrafts (ii)	0.00	0.00
Bank borrowings (i)	38,011,357.48	39,065,577.84
Loans from:		
related entities	0.00	0.00
other entities	0.00	0.00
Obligations under finance lease (iii)	2,781,852.97	692,130.68
Settlement of commission on borrowing (iv)	-416,250.00	-624,375.00
Total	49,927,646.11	61,973,500.76

22.1. Summary of credit facility agreements

As at 31 December 2013

(PLN)

Bank / entity	Description	Principal according to the agreement	Outstanding amount as at 31.12.2013	Interest rate	Repayment date	Security
Overdrafts (ii)						
mBank S.A.	Overdraft facility (agreement no. 07/183/04/Z/VV)(v)	10,000,000.00	0.00	O/N WIBOR for interbank credits + margin	15 May 2014	1. Blanket capped mortgage up to PLN 1,000,000 on real property KR1P/00264688/9, KR1P/0017153/4, KR1P/00227028/4 2. Blank bill of exchange
Bank Millennium S.A.	Overdraft facility (agreement no. 5700/13/400/04)	10,000,000.00	0.00	1M WIBOR + margin	22 May 2014	None
Other facilities (i)						
mBank S.A.	Investment facility (agreement no. 07/164/11/Z/IN)	23,000,000.00	10,222,222.30	3M WIBOR + margin	11 December 2015	1. Blank bill of exchange with declaration 2. Blanket ordinary mortgage up to PLN 35,420,550 on real property KR1P/0026488/9, KR1P/0017153/4, KR1P/00227028/4, WA5M/00242445/1, KR1P/00333015/6, KR1P/00328817/0
Bank Millennium S.A.	Revolving facility (agreement no. 2749/11/475/04)(v)	35,000,000.00	22,421,657.40	1M WIBOR + margin	23 May 2014	1. Assignment of claims under the following contract: "Construction of the Franowo tram depot in Poznań" 2. Assignment of claims under the following contract no. DO 13/2013: "Upgrade of a separate track at lines no. 15, 21, 24 and 27 along the 3-go Maja Street, an interchange in Sosnowiec, platforms," "Upgrade of crossings in Sosnowiec: 3-go Maja Street, the intersection of Parkowa Mościckiego Streets" (project no. 28)," "Upgrade of a tramway in the 3-go Maja Street in Sosnowiec, the interchange to the Zagórze terminus (project no. 29)," 3. Bank enforcement order of PLN 52,500 thousand until 23 May 2017
BNP Paribas Bank Polska S.A.	Revolving facility (agreement no. WAR/2001/11/198/CB)(v)	45,000,000.00	10,478,589.00	3M WIBOR + margin	Repayment on 7 January 2014 and security release	1. Blank bill of exchange 2. Registered pledge, assignment of rights under the insurance policy for plant and equipment 3. Assignment of claims under the contract no. 90/132/284/00/11024955/10/I/I 4. Borrower's statement on submission to enforcement pursuant to Art. 97 of the Banking Act 1997

(iii) See note 27 for details on lease.

(iv) Item includes the commission on the borrowing taken out to acquire PRK which reduces the liability.

(v) The repayment dates were extended for the agreements no. 07/183/04/Z/VV and 2749/11/475/04.

23. Provisions

The following table sets out the changes in provisions.

(PLN)

	As at 01/01/2013	Increases in connection with merger (as at 01/01/2013)	Created	Released	Utilised	As at 31/12/2013
Long-term provisions:	2,224,595.16	5,426,463.20	1,664,751.90	1,732,042.77	241,856.46	7,341,911.03
Provisions for employee benefits	127,658.41	2,171,546.60	137,822.64	1,732,042.77	0.00	704,984.88
Provisions for warranty repairs	2,096,936.75	3,254,916.60	1,526,929.26	0.00	241,856.46	6,636,926.15
Other provisions	0.00	0.00	0.00	0.00	0.00	0.00
Short-term provisions:	2,033,682.76	11,013,158.02	4,928,017.22	3,531,240.86	4,815,600.71	9,628,016.43
Provisions for employee benefits	1,618,682.76	3,417,292.88	3,147,225.59	200,666.40	4,689,743.24	3,292,791.59
Provisions for warranty repairs	415,000.00	2,675,422.69	713,818.54	0.00	103,057.47	3,701,183.76
Provision for contract losses	0.00	0.00	600,000.03	0.00	0.00	600,000.03
Other provisions	0.00	4,920,442.45	466,973.06	3,330,574.46	22,800.00	2,034,041.05
Total provisions:	4,258,277.92	16,439,621.22	6,592,769.12	5,263,283.63	5,057,457.17	16,969,927.46

Provision for warranty repairs is created for the construction contracts in respect of which warranty has been given by the Company depending on the amount of revenues and taking account of subcontractors' liability for the work they have been entrusted with. In 2013, the ratio of provisions to revenues under contracts was 0.6%. The amount of provisions may decrease or increase on the basis of inspections of construction works in subsequent years of warranty.

24. Construction contracts

The following details relate to the construction contracts performed by the Company.

Selected balance sheet data

(PLN)

	As at 31/12/2013	As at 31/12/2012
Assets:	182,129,935.66	189,250,865.67
including:		
- measurement of contracts	47,016,071.48	56,920,777.45
- advance payments for contracts	2,526,025.56	364,768.90
Liabilities	108,110,715.20	70,965,043.19
including:		
- measurement of contracts	12,438,428.12	1,077,031.05
- provision for contract expenses	12,521,925.53	7,117,414.60
Received advance payments for contracts	0.00	0.00
Revenue under construction contracts	361,291,341.94	312,325,151.21
Expenses under construction contracts	346,048,630.75	306,556,003.44
Gross profit / (loss)	15,242,711.19	5,769,147.77

25. Retentions on construction contracts

(PLN)

	As at 31/12/2013	As at 31/12/2012
Retained by customers – to be repaid after 12 months	1,644,247.14	52,961.59
Retained by customers – to be repaid within 12 months	5,219,036.44	3,643,819.20
Total retentions on construction contracts retained by customers	6,863,283.58	3,696,780.79
Retained for suppliers – to be repaid after 12 months	8,957,972.44	3,045,951.42
Retained for suppliers – to be repaid within 12 months	6,629,847.11	7,133,576.68
Total retentions on construction contracts retained for suppliers	15,587,819.55	10,179,528.10

Retentions on construction contracts with payment dates above one year are discounted and recognized in the balance sheet at present value. The table below shows the results of discounting recognized in the balance sheets and profit or loss of the Company in individual periods. The amounts of discount reduce the nominal value of receivables from and liabilities under retentions on construction contracts. In 2013, the discount rate was 4%. In addition, a deferred tax is recognized in the balance sheet on the stated amounts calculated at the rate prevailing in Poland, i.e. 19%, and on the effect of change in the value of discount in the profit or loss.

25.1. Discount recognised in profit or loss:

(PLN)

	As at 31/12/2013	As at 31/12/2012
Discount of long-term retentions on construction contracts retained by customers	25,325.74	6,835.21
Discount of long-term retentions on construction contracts retained for suppliers	1,065,720.76	515,906.95
Adjustment of financial income	-84,605.38	286,317.82
Adjustment of financial expenses	1,075,389.99	0.00
Deferred tax on above adjustments	220,399.12	-54,400.39
Net effect on profit or loss	-939,596.25	231,917.43

25.2. Ageing analysis of past due retentions on construction contracts (nominal value before discount)

The following table presents the ageing analysis of retentions on construction contracts that are past due at the end of the reporting period but not impaired:

(PLN)

	As at 31/12/2013	As at 31/12/2012
Past due retentions on construction contracts:		
– up to 1 month	0.00	1,970.10
– 1 – 3 months	335,248.23	0.00
– 3 – 6 months	0.00	0.00
– 6 months - 1 year	0.00	19,369.00
– over 1 year	0.00	206,969.68
Total	335,248.23	228,308.78

25.3. Risk of interest rate fluctuations

The effective interest rate as at 31 December 2013 used to discount the retentions on construction contracts did not change when compared to 2012 and was 4%.

26. Trade and other payables

(PLN)

	As at 31/12/2013	As at 31/12/2012
Trade payables	56,131,983.22	59,013,924.61
Liabilities to the state budget other than corporate income tax	6,036,000.39	13,669,759.19
Accruals	12,914,008.55	7,117,414.60
Liabilities under contracts (measurement)	13,064,266.10	1,077,031.05
Other payables	171,650.59	34,714.32
Total trade and other payables	88,317,908.85	80,912,843.77

26.1. Ageing analysis of trade payables

(PLN)

	As at 31/12/2013	As at 31/12/2012
Not past due payables	52,458,735.82	48,325,942.74
Past due payables	3,673,247.40	10,687,981.87
1-30 days	3,009,713.81	2,232,564.63
31-60 days	1,185.91	7,335,021.11
61-90 days	585,333.52	36,431.96
91-180 days	2,376.57	0.00
181-360 days	27,999.55	1,083,964.17
360 + days	46,638.04	0.00
Total trade payables	56,131,983.22	59,013,924.61

Total trade payables as at 31 December 2013 amounted to PLN 56.1m (PLN 59.0m for 2012).

27. Obligations under finance lease

27.1. General terms of lease

The Company leased its manufacturing equipment under finance lease. The lease term is from three to six years. The Company has an option to purchase the equipment at the end of the lease for a price equal to their residual value. The Company's obligations under the finance lease are secured by the lessor's title to the leased assets.

27.2. Obligations under finance lease

(PLN)

	Minimum lease payments		Present value of minimum lease payments	
	As at 31/12/2013	As at 31/12/2012	As at 31/12/2013	As at 31/12/2012
Not later than one year	3,080,611.32	855,752.80	2,781,852.97	692,130.68
Later than one year and not later than five years	4,759,406.46	2,540,095.72	4,439,574.44	2,139,355.94
Later than five years	0.00	0.00	0.00	0.00
Less: future finance charges	-618,590.37	-564,361.90	n/a	n/a
Present value of minimum lease payments	7,221,427.41	2,831,486.62	7,221,427.41	2,831,486.62
Included in the financial statements as:				
current borrowings (note 22)			2,781,852.97	692,130.68
Non-current borrowings (note 22)			4,439,574.44	2,139,355.94

28. Obligations under retirement and other benefits

Since 1 January 2013, actuarial gains and losses have been recognised by the Company in the statement of comprehensive income given the changes to IAS 19 "Employee Benefits." Actuarial gains and losses for 2012 were recognised by the Company in profit or loss.

Pension and retirement gratuities are paid to employees who go to retirement or draw pension. The amount of the gratuity is the product of its base at the date of entitlement and the appropriate ratio progressing in proportion to the years of service.

The table below sets out the obligations under employee benefits:

	(PLN)	
	As at 31/12/2013	As at 31/12/2012
Pension and retirement gratuities, including:	751,004.89	127,658.41
– present amount of obligation at the end of the reporting period	751,004.89	127,658.41
– actuarial gains / (losses) unrecognised at the end of the reporting period	0.00	0.00
– past service cost unrecognised at the end of the reporting period	0.00	0.00
Obligations to employees	0.00	0.00
Other employee benefits	7,275,331.21	2,345,244.82
– provision for unused leaves	2,925,360.76	1,618,682.76
– provision for bonuses	321,410.82	0.00
– salaries	2,028,630.44	0.00
– social security and other benefits	1,999,929.19	726,562.06
Total obligations under retirement and other benefits	8,026,336.10	2,472,903.23
including:		
– long-term	704,984.88	127,658.41
– short-term	7,321,351.22	2,345,244.82

Key actuarial assumptions used to calculate obligations under pension and retirement gratuities:

	As at 31/12/2013	As at 31/12/2012
Discount rate	4%	4%
Expected inflation	0%	3%
Expected salary increase	3%	3%

Pension and retirement gratuities

	As at 31/12/2013	As at 31/12/2012
Present amount of obligation at the beginning of the year	127,658.41	132,677.59
Increases in connection with the merger (as at 01/01/2013)	2,248,846.26	0.00
Interest cost	86,486.85	5,307.10
Current service cost	121,875.67	20,328.41
Past service cost	-1,710,358.10	0.00
Benefits paid	-114,460.00	0.00
Actuarial (gains)/ losses	-9,044.20	-30,654.69
Present amount of obligation at the end of the year	751,004.89	127,658.41

Amounts recognised in the statement of comprehensive income in respect of future employee benefits are as follows:

	(PLN)	
	As at 31/12/2013	As at 31/12/2012
Current service cost	83,151.11	20,328.41
Interest cost	86,486.86	5,307.10
Actuarial (gains)/ losses to be recognised in the period	-9,044.20	-30,654.69
Past service cost	-1,710,358.10	0.00
Costs recognised in statement of comprehensive income	-1,549,764.33	-5,019.18
Amount recognised in profit or loss	-1,540,720.13	-5,019.18
Amount recognised in other comprehensive income	-9,044.20	0.00

The past service cost of PLN -1,710,358.10 mainly concerned the reversal of retirement gratuities posted in prior periods in connection with changes in the remuneration rules following the merger of PRK and ZUE.

29. Capital management

The Company reviews the capital structure each time for the purpose of major contract financing. As part of this review, the Company considers the funds required for day-to-day operations, the schedule of contract financing, the cost of capital and the risks associated with each class of capital.

The gearing ratio at the end of the year:

	(PLN)	
	As at 31/12/2013	As at 31/12/2012
Interest bearing loans and borrowings	49,927,646.11	61,973,500.76
Retentions on construction contracts	15,587,819.55	10,179,528.10
Obligations under employee benefits	8,026,336.10	2,472,903.23
Trade and other payables	88,317,908.85	80,912,843.77
Current tax liabilities	2,942,830.00	0.00
Debt	164,802,540.61	155,538,775.86
Cash and cash equivalents	49,645,210.98	10,231,528.46
Net debt	115,157,329.63	145,307,247.40
Equity	192,434,912.76	170,391,422.97
Net debt to equity ratio	59.84%	85.28%

30. Financial risk management

The main financial instruments used by the Company include:

- bank borrowings, loans and finance lease 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 Board verify these risks and define the rules governing the management of these risks.

30.1. Foreign exchange risk

As part of its core business, 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.

Foreign currency risk – sensitivity to changes

To analyse the sensitivity to exchange rate changes, the reasonably possible change in foreign exchange rates was assessed, on the basis of historical changes and the Company's experience and knowledge of financial markets, at -5% / +5% for EUR/PLN exchange rate as at 31 December 2013.

The following table presents the sensitivity of the financial result to reasonably possible change in foreign exchange rates provided that other factors remain unchanged (the effect on the result of the year and net assets is identical).

(PLN)

	Currency	Carrying amount at the end of the reporting period (PLN)	Sensitivity to changes as at 31 December 2013	
			Depreciation	Appreciation
			of PLN against other currencies	
			+5% (EUR/PLN)	-5% (EUR/PLN)
Cash	EUR	96,708.31	4,835.42	-4,835.42
	RBL	513.67	25.68	-25.68
Trade and other payables	EUR	176,525.74	-8,826.29	8,826.29
Gross effect on the result of the period and net assets			-3,965.19	3,965.19
Deferred tax			753.39	-753.39
Total			-3,211.80	3,211.80

30.2. Interest rate risk

The Company is exposed to interest rate risk mainly because it uses such instruments as bank borrowings, loans and finance lease. These instruments are issued at variable interest rates and expose the Company to the risk of cash flow fluctuations.

Interest rate risk – sensitivity to changes

To analyse the sensitivity to interest rate changes, the reasonably possible change in interest rates was assessed, on the basis of historical changes and the Company's experience and knowledge of financial markets, at -1% / +1% pp at 31 December 2013. A parallel shift of interest rate curve was assumed for the purpose of calculating the sensitivity to change in interest rates.

The following table sets out the effect on the result of the period and net assets as at 31 December 2013.

(PLN)

	Carrying amount at the end of the reporting period	31 December 2013	
		+100 bp	-100 bp
Long-term retentions on construction contracts (discount):			
– recognised in assets (present value)	1,644,247.14	-130,375.33	142,477.47
– recognised in liabilities (present value)	8,957,972.44	237,937.17	-248,321.03
Cash at banks (nominal value / interest)	49,645,210.98	496,452.11	-496,452.11
Advanced loans (nominal value / interest)	1,753,960.18	17,539.60	-17,539.60
Bank borrowings and loans (nominal value / interest)	42,706,218.70	-427,062.19	427,062.19
Obligations under finance lease (present value / interest)	7,221,427.41	-72,214.27	72,214.27
Gross effect on the result of the period and net assets		122,277.09	-120,558.81
Deferred tax		-23,232.65	22,906.17
Total		99,044.44	-97,652.64

The calculation of the sensitivity to interest rate changes did not include cash in hand and other cash.

30.3. Price risk

The Company is exposed to price risk relating to the increase in prices of the most popular construction materials such as steel, concrete, copper or crude oil products including petrol or diesel oil. Taking the available market data into consideration, on the basis of the Company's knowledge and experience, the risk is assessed as moderate.

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.

30.4. Credit risk

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

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

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

The credit risk increased for the Company in 2013 as public sector entities more and more frequently expect the contractor to finance the entire project. Under the Public Procurement Act, contracting authorities are entitled to determine the terms of transaction, which provide for postponed dates of payment.

30.5. 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 obligatory system of reporting cash flow forecasts.

The maturity structure for financial liabilities is set out in note 31 – Financial instruments.

31. Financial instruments

The following table sets out the carrying amounts of all financial instruments of the Company with a breakdown into particular classes and categories of assets and liabilities as at 31 December 2013.

(PLN)

Classes of financial instruments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
Retentions on construction contracts	0.00	0.00	6,863,283.58	0.00	15,587,819.55
Long-term receivables	0.00	0.00	0.00	0.00	0.00
Trade and other receivables	0.00	0.00	171,695,587.58	0.00	0.00
including: sums receivable from customers under construction contracts – advance payments	0.00	0.00	2,526,025.56	0.00	0.00
Derivative financial instruments and other financial liabilities	0.00	0.00	0.00	0.00	0.00
Advanced loans	0.00	0.00	1,753,960.18	0.00	0.00
Cash and cash equivalents	0.00	49,645,210.98	0.00	0.00	0.00
Bank borrowings and other debt instruments and other financing sources	0.00	0.00	0.00	0.00	49,927,646.11
Trade and other payables	0.00	0.00	0.00	0.00	88,317,908.85
including: sums payable to customers under construction contracts – advance payments	0.00	0.00	0.00	0.00	0.00
Total	0.00	49,645,210.98	180,312,831.34	0.00	153,833,374.51

At the end of the reporting period, there were no significant concentrations of credit risk for loans and receivables at FVTPL. The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.

Reclassifications of financial assets

During the period covered by the financial statements, the Company did not reclassify any financial instruments.

31.1. Maturity profile of financial liabilities at fair value through profit or loss and at amortised cost

(PLN)

	As at 31/12/2013	As at 31/12/2012
Age structure		
– less than 1 year	135,324,716.41	148,607,127.33
– 1 - 3 years	14,365,355.94	1,904,658.71
– 3 - 5 years	3,828,395.18	2,315,272.90
– 5 years +	314,906.98	965,375.75
Total	153,833,374.51	153,792,434.69

31.2. Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

31.3. Derivative instruments

No derivative instrument transactions were entered into by the Company in 2012 or 2013.

32. Transactions with related entities

32.1. Trade transactions

The following transactions between the related entities were entered into during the financial year:

(PLN)

	Receivables		Payables	
	As at 31/12/2013	As at 31/12/2012	As at 31/12/2013	As at 31/12/2012
PRK	n/a	7,801,206.13	n/a	281,836.93
BIUP	203,815.01	30,270.75	0.00	18,450.00
BPK Poznań	38,050.96	8,866.06	12,841.20	0.00
BPK Gdańsk	750.30	0.00	0.00	0.00
RTI	4,320.78	3,690.00	0.00	0.00
RTI Germany	0.00	0.00	172,361.96	0.00
Wiesław Nowak	0.00	0.00	0.00	0.00
Total	246,937.05	7,844,032.94	185,203.16	300,286.93

	Sales revenue		Purchase cost	
	Year ended 31/12/2013	Year ended 31/12/2012	Year ended 31/12/2013	Year ended 31/12/2012
PRK	n/a	10,482,532.65	n/a	4,278,995.81
BIUP	278,198.18	33,847.21	399,818.39	31,565.04
BPK Poznań	29,231.74	7,942.48	1,494,920.75	0.00
BPK Gdańsk	7,677.48	0.00	0.00	0.00
RTI	12,000.00	12,000.00	0.00	0.00
RTI Germany	0.00	0.00	768,422.51	0.00
Wiesław Nowak	0.00	0.00	416,000.00	360,000.00
Total	327,107.40	10,536,322.34	3,079,161.65	4,670,560.85

	Advanced loans		Financial income	
	As at 31/12/2013	As at 31/12/2012	Year ended 31/12/2013	Year ended 31/12/2012
PRK	n/a	0.00	n/a	0.00
BIUP	1,229,039.39	43,964.36	15,075.03	0.00
BPK Poznań	416,076.41	620,000.00	17,482.58	22,674.26
BPK Gdańsk	0.00	0.00	0.00	0.00
RTI	108,844.38	103,448.11	3,090.78	0.00
RTI Germany	0.00	0.00	0.00	0.00
Wiesław Nowak	0.00	0.00	0.00	0.00
Total	1,753,960.18	767,412.47	35,648.39	22,674.26

	Received loans		Financial expenses	
	As at 31/12/2013	As at 31/12/2012	Year ended 31/12/2013	Year ended 31/12/2012
PRK	n/a	0.00	n/a	0.00
BIUP	0.00	0.00	0.00	0.00
BPK Poznań	0.00	0.00	0.00	0.00
BPK Gdańsk	0.00	0.00	0.00	0.00
RTI	0.00	0.00	0.00	0.00
RTI Germany	0.00	0.00	0.00	0.00
Wiesław Nowak	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00

In 2013, the following services were sold by ZUE to the related entities:

BIUP:		
○ lease of offices		PLN 155 thousand
○ fee for backing guarantee and bank borrowing		PLN 53 thousand
○ car rental		PLN 20 thousand
○ other		PLN 31 thousand
○ contractual penalty for delayed service		PLN 19 thousand
BPK Poznań:		
○ fee for backing bills of exchange		PLN 17 thousand
○ other		PLN 12 thousand
BPK Gdańsk:		
○ car rental		PLN 8 thousand
RTI:		
○ lease of business establishment		PLN 12 thousand

The following services were sold by the related entities to ZUE:

BIUP:		
○ design services		PLN 400 thousand
BPK Poznań :		
○ design services		PLN 1,495 thousand
RTI Germany:		
○ market research services		PLN 768 thousand
Wiesław Nowak:		
○ other		PLN 416 thousand

In 2013, the transactions between the Company and the related entities were executed at market prices with discounts depending on the volume of purchase.

In 2013, RTI leased a business establishment on the basis of the lease of 16 November 2012.

The transactions with Mr. Wiesław Nowak occurred as a result of the lease of 28 December 2011 whereby he leased the office and warehouse space of 800m² out to ZUE. The Annex no. 2 to the said lease was signed on 12 November 2013. Under the Annex, the leased space was reduced to 160m² and the monthly rent was reduced to PLN 8 thousand.

BIUP leased offices under the lease of 7 April 2010 and the annexes 1, 2 and 3 and annex 4 of 1 October 2013.

ZUE rented Chevrolet AVEO 1.2 version LS, production year 2012, to BPK Gdańsk on the basis of the rental agreement of 17 May 2013.

ZUE rented 4 Chevrolet AVEO 1.2 cars to BIUP on the basis of the rental agreement of 31 October 2013.

ZUE guaranteed the related entities for bills of exchange. No costs of debts at risk in connection with the transactions with the related entities were recognised in the reporting period.

ZUE granted loans to BIUP and BPK Poznań maturing on 31 March 2014 and 20 December 2014.

The amounts due are not secured and will be settled in cash. No guarantees were given or received. No costs of debts at risk in connection with the transactions with the related entities were recognised in the accounting period.

33. Remuneration of key management personnel

The remuneration of Management Board members and other members of key management personnel during the year was as follows:

	Period	Remuneration	Period	Remuneration
Management Board				
Wiesław Nowak	01.2013-12.2013	734,122.40	01.2012-12.2012	732,696.15

(PLN)

Marcin Wiśniewski	01.2013-12.2013	342,000.00	01.2012-12.2012	465,240.00
Maciej Nowak	01.2013-12.2013	264,000.00	01.2012-12.2012	362,000.00
Jerzy Czeremuga	01.2013-12.2013	263,245.75	01.2012-12.2012	331,895.14
Anna Mroczek	24-31.12.2013	5,500.00	01.2012-12.2012	n/a
Proxy				
Barbara Nowak	01.2013-12.2013	284,395.20	01.2012-12.2012	300,033.88
Supervisory Board				
Beata Jaglarz	01.2013-12.2013	n/a	01.01.2012 –15.07.2012	68,057.66
Bogusław Lipiński	01.2013-12.2013	101,530.00	01.2012-12.2012	109,492.88
Magdalena Lis	01.2013-12.2013	59,409.82	01.2012-12.2012	44,991.28
Michał Lis	01.2013-12.2013	97,870.15	16.07.2012 –31.12.2012	43,277.91
Mariusz Szubra	01.2013-12.2013	6,000.00	01.2012-12.2012	6,000.00
Piotr Korzeniowski	01.2013-12.2013	6,000.00	01.2012-12.2012	6,000.00
PRK Management Board				
	01.2013-20.12.2013	1,505,633.95	01.2012-12.2012	n/a
Total		3,669,707.27		2,469,684.90

The General Meeting decided not pay dividends for 2012.

The remuneration of the Management Board members is determined by the Supervisory Board and the remuneration of key management personnel is determined by the Management Board President (the main shareholder of the Company) having regard to the performance of individuals and market trends.

In 2013, members of the Supervisory Board were paid monthly gross remuneration of PLN 500 for their service on the Board. The abovementioned remuneration of Mr. Bogusław Lipiński, Ms. Magdalena Lis and Mr. Michał Lis is the remuneration paid under employment contracts plus the remuneration for their service as the Supervisory Board members.

On 24 December 2013, the Company's Supervisory Board resolved under the resolution no. 19/2013 to appoint Ms. Anna Mroczek as member of the Management Board.

On 9 January 2014, the Company's Supervisory Board resolved under the resolution no. 2/2014 to appoint Mr. Arkadiusz Wierciński as member of the Management Board.

34. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and at banks and investments in financial market instruments taking account of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the balance sheet items as follows:

	As at 31/12/2013	As at 31/12/2012
Cash on hand and at banks	3,237,646.10	820,544.50
Bank deposits up to three months	46,407,564.88	9,410,983.96
TOTAL	49,645,210.98	10,231,528.46

(PLN)

35. Non-cash transactions and sources of finance

In 2013, the non-cash investing and financing activities which were not reflected in the statement of cash flows included the acquisition of property, plant and equipment of PLN 3,922 thousand under a finance lease.

In 2012, the Company did not enter into any non-cash investing or financing activities which were not reflected in the statement of cash flows.

36. Operating lease arrangements

36.1. The Company as lessee

Operating lease relates to the following leasehold property:

- Undeveloped real property in Cracow Podgórze – Jugowice, district 45, comprising the plots no. 36/2, 37/6, 37/11, 40/25 – Land and mortgage register no. KR1P/00333015/6.
- Undeveloped real property in Cracow, district 25, comprising the plots no. 121/1, 121/3, 121/4, 122/1, 122/2, 137/2, 162/1 and 162/5 – Land and mortgage register no. KR1P/00204399/8 and KR1P/00199773/5.
- Developed real property in Cracow, district 4, comprising the plot no. 527/26 – Land and mortgage register no. 185225,
- Undeveloped real property in Kościelisko, comprising the plots no. 2001 and 2491 – Land and mortgage register no. 10662 and 10740.

36.2. Leasing arrangements

The annual lease payment for the leasehold land in the Podgórze district 45 marked as the plots no. 36/2, 37/6, 37/11 and 40/25 is PLN 34,307.88. The leasehold is until 2089.

The annual lease payment for the leasehold land in the district 25 marked as the plots no. 121/1, 121/3, 121/4, 122/1, 122/2, 137/2, 162/1 and 162/5 is PLN 20,417.76. The leasehold is until 2089.

The annual lease payment for the leasehold land in the district 4 marked as the plot no. 527/26 is PLN 1,202.37. The leasehold is until 2089.

The annual lease payment for the leasehold land in Kościelisko marked as the plots no. 2001 and 2491 is PLN 83,840.00. The leasehold is until 2089.

36.3. Payments recognises as an expense

(PLN)

	Year ended 31/12/2013	Year ended 31/12/2012
Minimum lease payments	142,425.29	34,307.88
Total	142,425.29	34,307.88

36.4. Operating lease commitments

(PLN)

	As at 31/12/2013	As at 31/12/2012
Not later than 1 year	139,768.01	34,307.88
Later than 1 year and not later than 5 years	559,072.04	137,231.52
Later than 5 years	9,923,528.71	2,470,167.36
Total	10,622,368.76	2,641,706.76

37. Contingent liabilities and contingent assets

37.1. Contingent liabilities

(PLN)

	As at 31/12/2013	As at 31/12/2012
Bonds and guarantees	191,811,696.21	147,730,713.13
Sureties	2,105,028.42	10,120,414.37
Bills of exchange	130,136,815.31	143,257,805.38
Mortgages	35,420,550.00	35,420,550.00
Pledges	11,034,573.75	15,484,784.94
Total	370,508,663.69	352,014,267.82

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

The contingent liabilities secured by the bills of exchange and mortgages are mainly credit facility and lease agreements.

37.2. Contingent assets

	As at 31/12/2013	As at 31/12/2012
Bonds and guarantees	29,641,187.66	22,221,272.58
Bills of exchange	1,324,625.61	52,706.20
Mortgages	0.00	1,240,000.00
Total	30,965,813.27	23,513,978.78

(PLN)

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

38. Events after the reporting period

On 31 January 2014, the tender submitted by the consortium of ZUE of Cracow (Leader) and Dalekovod – Polska S.A. of Warsaw (Partner) in the tender procedure for "Construction of the double track 400 kV Kozenice – Oltarzew" was selected by the contracting authority as the most advantageous offer. The contracting authority: Polskie Sieci Elektroenergetyczne S.A. Net value of the tender submitted by the Consortium: PLN 469,000,000. Completion date: 30 June 2019.

On 21 February 2014, ZUE signed the contract for a part of the construction works concerning the OCL and track services as part of the following project executed by Mota – Engil Central Europe S.A. of Cracow: "Extension of a tramway under the KST project Phase II B including the road system (the Lipska Street – the Wielicka Street) in Cracow." The contracting authority: Mota – Engil Central Europe S.A. of Cracow. Net value of the contract: PLN 26,650,000.00. Completion date: 15 August 2015.

On 25 February 2014, the tender submitted by ZUE for the following project: "Upgrade of the Wrocław Zgorzelec railway line no. 274 on the Wrocław – Jelenia Góra section" – upgrade of the railroad surface with auxiliary works, Smolec junction signal box, track no. 1, the Smolec – Kały Wrocławskie route, track no. 1, the Kały Wrocławskie – Mietków route and track no. 3 in the Boguszów Gorce Zachód station, was selected by the contracting authority as the most advantageous offer. The contracting authority: PKP Polskie Linie Kolejowe S.A. Investment Centre – Wrocław Branch. Net value of the tender submitted by the Company: PLN 42,436,450.00. Completion date: 30 October 2015.

On 28 February 2014, ZUE and Tramwaje Warszawskie Sp. z o.o. of Warsaw signed the contract for the construction of the tram line to Tarchomin in Warsaw. Net value of the contract: PLN 52,195,121.13. Completion date: 10 months of the contract conclusion.

On 28 February 2014, ZUE concluded the contract for the comprehensive works as part of the following project executed by Budimex S.A. of Warsaw: "Reconstruction of the tram line on the Mogiłskie Roundabout – Al. Jana Pawła II – Plac Centralny section together with the traffic control system in Cracow." Net value of the contract: PLN 11,930,000. Completion date: 10 months of the contract conclusion.

On 4 March 2014, ZUE concluded the contract with Pomorskie Przedsiębiorstwo Mechaniczno – Torowe Sp. z o.o. of Gdańsk for the provision of construction services on the section named V Grodzisk Mazowiecki station in connection with the following tasks performed by Pomorskie Przedsiębiorstwo Mechaniczno – Torowe Sp. z o.o. of Gdańsk for PKP Polskie Linie Kolejowe of Warsaw:

- Design and upgrade of the Warsaw – Łódź railway line, stage II, the Warszawa Zachodnia – Miedniewice (Skierniewice) section, as part of the POIIS 7.1 – 24.1 project: "Upgrade of the Warsaw – Łódź railway line, stage II, Lot A – the Warszawa Zachodnia – Skierniewice section;"
- Supplementary works related to civil structures, railway substructure and elements of telecommunications engineering on the 6,500km - 54,100km section, line no. 1 Warszawa Centralna – Katowice, as part of the POIIS 7.1 – 24.1 project: "Upgrade of the Warsaw – Łódź railway line, stage II, Lot A – the Warszawa Zachodnia – (Miedniewice) Skierniewice section;"
- Supplementary works related to the reinforcement of the track substructure and reconstruction of the track layout at the Pruszków station, the Pruszków – Grodzisk Mazowiecki route, the Grodzisk Mazowiecki station, the Żyrardów station and power engineering works at the Pruszków station, the Żyrardów station, line no. 1 Warszawa Centralna–Katowice, as part of the POIIS 7.1 – 24.1 project:



"Upgrade of the Warsaw – Łódź railway line, stage II, Lot A – Warszawa Zachodnia – (Miedniewice) Skierniewice section."

Net value of the contract: PLN 71,758,000. Completion date: 30 September 2015.

39. Approval of the financial statements

The financial statements were approved by the Management Board on 14 March 2014.

**STATEMENT OF THE MANAGEMENT BOARD OF ZUE ON ANNUAL FINANCIAL STATEMENTS
COMPLIANCE WITH APPLICABLE ACCOUNTING PRINCIPLES**

The Management Board of ZUE state that according to their best knowledge, the annual separate financial statements of the Company for the period 1 January to 31 December 2013 have been prepared in accordance with applicable accounting principles and give a true and fair view of the financial position of the Company and its financial performance. 2013 Management Board Report contains a true view of the Company's development and achievements and the Company's standing, including the description of fundamental risks and threads.

Wiesław Nowak – Management Board President

Marcin Wiśniewski – Management Board Vice-President

Jerzy Czeremuga – Management Board Vice-President

Maciej Nowak – Management Board Member

Anna Mroczek – Management Board Member

Arkadiusz Wierciński – Management Board Member

Cracow, 14 March 2014

These financial statements of ZUE cover the period from 1 January to 31 December 2013. These financial statements have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

The financial statements have been prepared by:

Ewa Bosak – Chief Accountant

The financial statements have been presented by the
Management Board:

Wiesław Nowak – Management Board President

Marcin Wiśniewski – Management Board Vice-
President

Jerzy Czeremuga – Management Board Vice-President

Maciej Nowak – Management Board Member

Anna Mroczek – Management Board Member

Arkadiusz Wierciński – Management Board Member

Cracow, 14 March 2014