



FINANCIAL STATEMENTS OF ZUE S.A.
FOR THE YEAR ENDED 31 DECEMBER 2016

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

CONTENTS

Selected financial data of ZUE S.A.	5
Statement of comprehensive income.....	6
Statement of financial position.....	8
Statement of changes in equity	10
Statement of cash flows	11
Discussion of financial results	12
Notes to the financial statements prepared as at 31 December 2016	13
1. General information	13
1.1. Information about the Company	13
1.2. Activities of the Company	14
1.3. Functional and reporting currency	14
2. Use of International Financial Reporting Standards	14
2.1. Statement of compliance	14
2.2. Standards and interpretations used for the first time in the reporting period	14
2.3. Standards and interpretations published and approved of by the EU but not yet effective	15
2.4. Standards and interpretations adopted by the IASB but not yet approved of by the EU	15
3. Applied accounting principles	16
3.1. Going concern	16
3.2. Comparability of financial data	16
3.3. Preparation basis	16
3.4. Segment reporting	17
3.5. Measurement of sales revenue	17
3.6. Foreign currencies	17
3.7. Borrowing costs	17
3.8. Government grants	18
3.9. Employee benefits	18
3.10. Income tax (including deferred tax)	18
3.11. Property, plant and equipment	19
3.12. Investment property	19
3.13. Intangible assets	20
3.14. Impairment of tangible and intangible assets	20
3.15. Long-term financial assets, including investments in subsidiaries	20
3.16. Leasing	21
3.17. Inventories	21
3.18. Non-current assets held for sale.....	21
3.19. Financial assets.....	22
3.20. Financial liabilities and equity instruments issued by the Company	23
3.21. Provisions	24
3.22. Onerous contracts.....	24
3.23. Derivative instruments	24
4. Key sources of estimation uncertainty	24
4.1. Impairment of goodwill	25
4.2. Useful economic lives of non-current assets	25
4.3. Fair value of derivatives and other financial instruments	25
4.4. Provisions for litigations	25
4.5. Provisions for warranty claims	25
4.6. Construction contracts accounted for using percentage-of-completion method	25
4.7. Deferred tax assets	26
5. Notes to the financial statements as at 31 December 2016	27
5.1. Revenue	27
5.2. Operating expenses.....	27
5.3. Other operating income.....	28
5.4. Other operating expenses	28
5.5. Financial income	29
5.6. Financial expenses	29
5.7. Corporate income tax.....	30
5.8. Profit (loss) per share.....	32
5.9. Property, plant and equipment	33
5.10. Investment property	34
5.11. Non-current assets held for sale.....	35

5.12.	Intangible assets	35
5.13.	Goodwill	36
5.14.	Investments in and advances to subordinates	36
5.15.	Other financial assets	38
5.16.	Other assets	38
5.17.	Advanced loans	38
5.18.	Inventories	39
5.19.	Trade and other receivables	39
5.20.	Share capital	42
5.21.	Share premium account	43
5.22.	Treasury shares	43
5.23.	Retained earnings	43
5.24.	Loans, bank credits and other financing sources	44
5.25.	Other financial liabilities	48
5.26.	Other liabilities	48
5.27.	Provisions	49
5.28.	Construction contracts	50
5.29.	Retentions on construction contracts	51
5.30.	Trade and other payables	53
5.31.	Obligations under finance lease	54
5.32.	Obligations under retirement and other benefits	55
5.33.	Capital management	58
5.34.	Financial risk management	58
5.35.	Financial instruments	62
5.36.	Transactions with related entities	65
5.37.	Proceedings before court, arbitration court or public administration authority at the date of this report preparation	66
5.38.	Remuneration of key management personnel	66
5.39.	Dividend	67
5.40.	Cash and cash equivalents	68
5.41.	Non-cash transactions and sources of finance	68
5.42.	Operating lease arrangements	68
5.43.	Contingent assets and contingent liabilities	69
6.	Events after the end of the reporting period	70
7.	Approval of the financial statements	72
	STATEMENT OF THE MANAGEMENT BOARD OF ZUE ON COMPLIANCE OF ANNUAL FINANCIAL STATEMENTS WITH APPLICABLE ACCOUNTING PRINCIPLES	73

Abbreviations and definitions:

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

Share capital details as at 31 December 2016.

Selected financial data of ZUE S.A.

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

	As at 31-12-2016		As at 31-12-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	143,469	32,430	140,377	32,941
Current assets	200,863	45,403	267,827	62,848
Total assets	344,332	77,833	408,204	95,789
Equity	209,623	47,383	215,611	50,595
Non-current liabilities	24,518	5,542	27,695	6,499
Current liabilities	110,191	24,908	164,898	38,695
Total equity and liabilities	344,332	77,833	408,204	95,789

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

	Year ended 31-12-2016		Year ended 31-12-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	311,086	71,094	509,586	121,771
Cost of sales	297,235	67,929	463,592	110,780
Gross profit (loss) on sales	13,851	3,165	45,994	10,991
Profit (loss) on operating activities	743	170	27,841	6,653
Gross profit (loss)	2,328	532	20,845	4,981
Net profit (loss) from continuing operations	1,480	338	15,349	3,668
Total comprehensive income	1,525	349	15,337	3,665

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

	Year ended 31-12-2016		Year ended 31-12-2015	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-33,820	-7,729	119,294	28,506
Cash flows from investing activities	-64,097	-14,648	-12,148	-2,903
Cash flows from financing activities	-11,355	-2,595	-8,139	-1,945
Total net cash flows	-109,272	-24,972	99,007	23,658
Cash at the beginning of the year	169,795	39,844	71,116	16,685
Cash at the end of the year	61,207	13,835	169,795	39,844

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 31-12-2016	Exchange rate on 31-12-2015	Exchange rate on 31-12-2014
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.4240	4.2615	n/a
Items of statement of profit or loss and statement of cash flows	Arithmetic mean of mid exchange rates quoted by the National Bank of Poland on the last day of each month of the period	4.3757	4.1848	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	4.4240	4.2615	4.2623

Statement of comprehensive income

(PLN '000)

Continuing operations

	Note no.	Year ended 31-12-2016	Year ended 31-12-2015
Revenue	5.1	311,086	509,586
Cost of sales	5.2	297,235	463,592
Gross profit (loss)		13,851	45,994
General and administrative expenses	5.2	16,323	17,609
Other operating income	5.3	4,973	5,991
Other operating expenses	5.4	1,758	6,535
Operating profit (loss)		743	27,841
Financial income	5.5	2,665	853
Financial expenses	5.6	1,080	7,849
Pre-tax profit (loss)		2,328	20,845
Corporate income tax	5.7	848	5,496
Net profit (loss) from continuing operations		1,480	15,349
Net profit (loss)		1,480	15,349
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		45	-12
Remeasurement of liabilities under employee benefits	5.32	45	-12
Other total net comprehensive income		45	-12
Total comprehensive income		1,525	15,337
Weighted average number of shares		23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)	5.8	0.06	0.67

Total comprehensive income per share (PLN)	5.8	0.07	0.67
--	-----	------	------

Statement of financial position

		(PLN '000)	
		As at	As at
	Note no.	31-12-2016	31-12-2015
ASSETS			
Non-current assets			
Property, plant and equipment	5.9	80,335	77,985
Investment property	5.10	7,349	7,822
Intangible assets	5.12	9,119	9,638
Goodwill	5.13	31,172	31,172
Investments in subordinates	5.14	210	239
Advance payments for investments in subordinates	5.14	0	0
Long-term receivables		0	0
Retentions on construction contracts	5.29	6,819	5,288
Deferred tax assets	5.7	8,465	8,233
Other assets	5.16	0	0
Total non-current assets		143,469	140,377
Current assets			
Inventories	5.18	6,196	18,368
Trade and other receivables	5.19	74,937	73,889
Retentions on construction contracts	5.29	2,101	602
Current tax assets	5.7	0	3,954
Other financial assets	5.15	54,935	0
Other assets	5.16	1,198	1,061
Loans advanced	5.17	289	158
Cash and cash equivalents	5.40	61,207	169,795
Total current assets		200,863	267,827
Total assets		344,332	408,204

		(PLN '000)	
		As at	As at
	Note no.	31-12-2016	31-12-2015
EQUITY AND LIABILITIES			
Equity			
Share capital	5.20	5,758	5,758
Share premium account	5.21	93,837	93,837
Treasury shares	5.22	-2,690	-2,690
Retained earnings	5.23	112,718	118,706
Total equity		209,623	215,611
Non-current liabilities			
Long-term loans and bank credits and other financing sources	5.24	8,875	11,155
Retentions on construction contracts	5.29	6,717	7,991
Other financial liabilities	5.25	0	0
Liabilities under employee benefits	5.32	740	697
Deferred tax liabilities	5.7	0	0
Long-term provisions	5.27	7,556	6,942
Deferred revenue		0	0
Other liabilities	5.26	630	910
Total non-current liabilities		24,518	27,695
Current liabilities			

Trade and other payables	5.30	74,740	112,381
Retentions on construction contracts	5.29	9,117	11,668
Short-term loans and bank credits and other financing sources	5.24	5,765	6,111
Other financial liabilities	5.25	37	37
Liabilities under employee benefits	5.32	16,562	21,947
Current tax liabilities	5.7	0	0
Short-term provisions	5.27	3,970	12,754
Total current liabilities		110,191	164,898
Total liabilities		134,709	192,593
Total equity and liabilities		344,332	408,204

Statement of changes in equity

	Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at 1 Jan 2016	5,758	93,837	-2,690	118,706	215,611
Payment of dividend	0	0	0	-7,513	-7,513
Issue of shares	0	0	0	0	0
Issue costs	0	0	0	0	0
Buy-back of shares	0	0	0	0	0
Profit (loss) for the year	0	0	0	1,480	1,480
Other net comprehensive income	0	0	0	45	45
Balance at 31 Dec 2016	5,758	93,837	-2,690	112,718	209,623

	Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at 1 Jan 2015	5,758	93,837	0	103,369	202,964
Payment of dividend	0.00	0.00	0.00	0.00	0.00
Issue of shares	0.00	0.00	0.00	0.00	0.00
Issue costs	0.00	0.00	0.00	0.00	0.00
Buy-back of shares	0	0	-2,690	0	-2,690
Profit (loss) for the year	0.00	0.00	0.00	15,349	15,349
Other net comprehensive income	0.00	0.00	0.00	-12	-12
Balance at 31 Dec 2015	5,758	93,837	-2,690	118,706	215,611

Statement of cash flows

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	2,328	20,845
Adjustments for:		
Depreciation and amortisation	9,222	8,732
Foreign exchange gains / (losses)	-684	329
Interest and share in profit (dividends)	-823	6,602
(Gain) / loss on disposal of investments	-161	1,875
Accrued expenses under commission on credits	0	208
(Gain) / loss on realisation of derivative financial instruments	0	0
Remeasurement of derivative financial instruments	0	0
Operating profit before changes in working capital	9,882	38,591
Change in receivables and retentions on construction contracts	-4,115	100,459
Change in inventories	12,171	-447
Change in provisions and liabilities under employee benefits	-13,515	14,480
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	-40,970	-25,633
Change in accrued expenses	-137	717
Change in funds of limited availability	0	0
Other adjustments	0	240
Income tax paid / tax refund	2,864	-9,113
NET CASH FROM OPERATING ACTIVITIES	-33,820	119,294
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	517	3,203
Purchase of property, plant and equipment and intangible assets	-10,982	-10,148
Investments in real property and intangible assets	0	0
Sale / (purchase) of financial assets in other entities	0	3
Sale / (purchase) of financial assets in subsidiaries	0	-1,285
Purchase of financial assets available for sale	0	-2,690
Cash payments to purchase debt instruments of other entities	-54,928	0
Loans advanced	-335	-1,835
Repayment of granted loans	74	100
Dividends received	0	0
Interest received	1,557	504
Settlement of financial instruments – expenses	0	0
Other cash provided by/(used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	-64,097	-12,148
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	3,790	126,585
Repayment of loans and bank credits	0	-127,974
Decrease in finance lease liabilities	-7,192	-6,339
Interest paid	-440	-405
Other cash provided by / (used in) financing activities – dividends	-7,513	-6
Net cash from issue of shares	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	-11,355	-8,139
TOTAL NET CASH FLOWS	-109,272	99,007
Net foreign exchange gains / (losses)	684	-328

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	169,795	71,116
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	61,207	169,795

Discussion of financial results

Discussion of major items of the statement of profit or loss

The Company's revenue for the financial year 2016 was PLN 311,086 thousand and fell by 39% when compared with the analogous period of 2015. Lower revenue reported by the Company in 2016 was mainly a result of a sharp and anticipated downturn in the rail and urban infrastructure market. ZUE carried out lower value contracts in the reporting period and a smaller number of orders contributed to lower margins. In addition, the Management Board's decision to maintain the Company's operating capacity while waiting for the performance of contracts financed under the "second EU perspective" had a negative influence on gross margin. A release of the provision for the risks relating to the settlement of the contract named "Construction of the FRANOWO tram depot in Poznań" of PLN 9m had a positive influence on gross margin. The Company informed about the release in the current report 7/2017.

The following results were reported by the Company in 2016:

	ZUE (PLN '000)
Gross profit (loss)	13,851
Operating profit (loss) (EBIT)	743
EBITDA*	9,965
Pre-tax profit (loss)	2,328
Net profit (loss)	1,480

*Operating profit + depreciation / amortisation.

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

In 2016, the Company's other operating income stood at PLN 4,973 thousand (down by 17% compared to 2015). The item was mainly influenced by a release of the provision of PLN 1,500 thousand created in 2012 in connection with the agreement between ZUE (legal successor of Przedsiębiorstwo Robót Komunikacyjnych S.A.) and Przedsiębiorstwo Komunikacji Miejskiej w Tychach and write-downs of receivables of PLN 1,966 thousand. Other operating expenses totalled PLN 1,758 thousand and decreased year-on-year by 73%.

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

Discussion of major items of the statement of financial position

At the end of 2016, the Company's total assets and liabilities stood at PLN 344,322 thousand and decreased year-on-year by 16%.

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

1) Current assets:

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

2) Long- and short-term payables:

- Decrease in long-term loans and bank credits and other financing sources by PLN 2,280 thousand as a result of decrease in lease payments;

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

Discussion of items of the statement of cash flows

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

Notes to the financial statements prepared as at 31 December 2016

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.

On 20 December 2013, ZUE (the "Acquirer") merged with Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. (the "Acquiree," "PRK") after the merger had been entered into a relevant register. The merger was described in section 17.4 of the financial statements for the year ended 31 December 2015.

Composition of the Company's governing and supervisory bodies at the date of preparation of these financial statements:

Management Board:

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

Supervisory Board:

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

Michał Lis

Supervisory Board Member

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

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

1.2. Activities of the Company

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

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

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

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

1.3. 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 thousands, unless specific circumstances require greater details.

2. Use of International Financial Reporting Standards

2.1. Statement of compliance

The financial statements of the Company for the year ended 31 December 2016 and the comparative information for the financial year ended 31 December 2015 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 the reporting period

The following standards, amendments to the standards and interpretations published by the International Accounting Standards Board and approved of by the European Union come into force in 2016:

- **Amendments to IFRS 10 “Consolidated Financial Statements,” IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016) – approved of in the EU on 22 September 2016;
- **Amendments to IFRS 11 “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations – approved of in the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 1 “Presentation of Financial Statements”** – Disclosure Initiative – approved of in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** – Clarification of Acceptable Methods of Depreciation and Amortisation – approved of in the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** – Bearer Plants – approved of in the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 19 “Employee Benefits”** – Specific Benefit Programmes: Employee Benefits, approved of in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- **Amendments to IAS 27 “Separate Financial Statements”** – Equity Method in Separate Financial Statements - approved of in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to various standards “Improvements to IFRSs (2010-2012 Cycle)”** – made as part of annual improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at the resolution of inconsistencies and specification of vocabulary, approved of in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- **Amendments to various standards “Improvements to IFRSs (2012-2014 Cycle)”** – made as part of annual improvements to IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) aimed mainly at the resolution of inconsistencies and specification of vocabulary, approved of in the EU on 15 December 2015 (effective for annual periods beginning on or after 1 January 2016).

The abovementioned amendments to existing standards or the interpretation did not have any material influence on the Company’s financial statements for 2016.

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, amendments to the standards or interpretations which had been published and approved of by the EU but had not yet come into force:

- **IFRS 9 “Financial Instruments”** - approved of in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective Date of IFRS 15” - approved of in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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

The International Financial Reporting Standards (IFRS) as endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) save for the following standards, amendments to the standards and interpretations not yet approved for use as at 13 March 2017:

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

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 2 "Share-based payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts"** – Use of IFRS 9 "Financial Instruments" and IFRS 4 "Insurance Instruments" (effective for annual periods beginning on or after 1 January 2018 or upon the use of IFRS 9 "Financial Instruments" for the first time);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and subsequent amendments (effective date was postponed until the completion of research on equity method);
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards "Improvements to IFRSs (2014-2016 Cycle)"** – made as part of annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) aimed mainly at the resolution of inconsistencies and specification of vocabulary (amendments to IFRS 12 effective for annual periods beginning on or after 1 January 2017 and amendments to IFRS MSSF 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018);
- **International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

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

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

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

3. Applied accounting principles

3.1. Going concern

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.

3.2. Comparability of financial data

No major changes to the presentation of financial data in the comparative periods have been made.

3.3. Preparation basis

The separate financial statements have been prepared under historical cost except for certain non-current assets and financial instruments measured at reassessed values or fair value according to the following accounting policy. The most important accounting policies used by the Company are presented below.

3.4. Segment reporting

The Company's reporting is based on operating segments.

The Company presents 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.

3.5. 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.

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.

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.

Included in liabilities are the amounts due and payable to suppliers 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).

3.6. Foreign currencies

Transactions in currencies other than functional currency are recognised at the rate prevailing on the day preceding 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.

3.7. 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 3.5, in profit or loss in the period in which they are incurred. Borrowing costs relating to construction contracts are debited directly to the cost of the Company's operating activities.

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

3.8. 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 non-current 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 non-current assets also apply in the case of non-current assets received for free.

3.9. 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 entered into with individual employees. Costs of wages and salaries also include bonuses and incentive rewards paid on the basis of the Corporate Collective Labour Agreement.

Costs of social insurance financed by the employer include pension, social security and accident benefits and contributions to the Guaranteed Employee Benefits Fund, the Labour Fund and the Bridging Pension Fund. Costs of pension benefits include retirement and pension gratuities paid to employees according to the employment 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 creates 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 presented in the financial statements at their net value.

Other employee benefits are paid under the law and the Corporate Collective Labour Agreement. The Company also covers the costs of trainings in occupational health and safety and private medical care for its employees.

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

3.10. Income tax (including deferred tax)

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

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 Company's liability for current tax is calculated using tax rates applicable in the year.

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.

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.

3.11. Property, plant and equipment

Property, plant and equipment include non-current assets and expenditures on non-current 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 non-current assets includes capital expenditure and expenses incurred in connection with future deliveries of plant and equipment and services related to the production of non-current assets (prepayments). Non-current assets also include essential specialist spare parts, which function as elements of non-current assets.

Non-current assets and non-current assets under construction are initially recognised at purchase price or production cost, including financing costs less impairment losses. Depreciation of those assets commences as of the month immediately following the month in which the asset is placed in service.

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

<u>Item</u>	<u>Useful lives</u>
Buildings and structures	10 – 50 years
Plant and equipment	3 – 30 years
Vehicles	5 – 30 years
Other non-current assets	4 – 15 years

Freehold land is not depreciated. According to the principle of prudence, low-value non-current assets are carried on a one-off basis to profit or loss in the period in which the expense was incurred. Prudence is analysed in terms of accumulated value of low-value non-current assets.

Non-current assets and non-current 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 3.14. Effects of the impairment of non-current assets and non-current 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 non-current assets are determined as the difference between sales revenue and the carrying amounts of those assets and are recognised in profit or loss.

3.12. Investment property

Investment properties are properties (including properties under construction) held by the Company as their owner or lessee under finance lease 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 3.18.

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 these items and recognised in profit or loss.

3.13. 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 the purchase of such rights 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 payments 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	25 – 99 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 3.14. 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.

3.14. 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, non-current 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.

3.15. 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.

3.16. 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 presented in the statement of financial position as loans and bank credits and other financing sources.

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 3.7.

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.

3.17. 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 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 are recognised in other operating expenses. Reversal of write-downs is recognised in other operating income.

3.18. 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.

3.19. 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.

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.

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.

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.

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.

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.

3.20. 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.

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.

Financial liabilities

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

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.

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.

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 non-current assets or non-current 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 current liabilities.

4. Key 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.

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.

4.1. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of all cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate required to calculate the present value.

4.2. Useful economic lives of non-current assets

As set out in items 3.11 and 3.13, 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 records, and the amount of the provision for litigations.

4.5. Provisions for warranty claims

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Company depending on the amount of revenues. In the reporting period, the ratio of provisions to revenue under contracts was 0.5% - 0.75%. The amount of provisions may decrease or increase on the basis of inspections of construction works carried out in subsequent years of warranty.

Provisions for 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. Notes to the financial statements as at 31 December 2016

5.1. Revenue

The following table presents the Company's revenue:

	(PLN '000)	
	Year ended 31-12-2016	Year ended 31-12-2015
Revenue from the sale of goods and raw materials	27,725	30,890
Revenue from the rendering of services	7,338	12,017
Revenue from construction contracts	276,023	466,679
Total	311,086	509,586

The revenue reported by the Company in 2016 was generated exclusively on the domestic market. The revenue generated in 2015 included international sales of PLN 44,950 thousand.

The Company carries out its projects both home and abroad. The biggest portion of sales is contributed by revenue from construction contracts. ZUE identifies one aggregate reporting segment: engineering construction and assembly services.

5.2. Operating expenses

	(PLN '000)	
	Year ended 31-12-2016	Year ended 31-12-2015
Change in products	821	-868
Cost of products manufactured for own use	0	0
Depreciation and amortization	9,222	8,732
Consumption of raw and other materials	83,057	132,715
Contracted services	128,695	222,885
Cost of employee benefits	57,584	76,437
Taxes and charges	1,619	1,691
Other expenses	6,710	10,242
Value of goods and materials sold	25,850	29,367
Total	313,558	481,201

Depreciation and amortisation

	(PLN '000)	
	Year ended 31-12-2016	Year ended 31-12-2015
Depreciation of property, plant and equipment	8,133	7,701
Amortisation of intangible assets	616	643
Depreciation of investment in real estate	473	388
Total	9,222	8,732

5.3. Other operating income

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Gain on disposal of assets:	161	1,625
Gain on disposal of non-current assets	161	1,625
Other operating income:	4,812	4,366
Bond and policy re-invoicing	255	257
Received damages	386	3,534
Release of write-downs of receivables	1,966	198
Refund of costs of court proceedings	40	39
Release of provisions for court cases	1,567	0
Release of allowances for inventories	185	0
Other	413	338
Total	4,973	5,991

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

Released provisions for court cases include a release of the provision following the agreement with Przedsiębiorstwo Komunikacji Miejskiej w Tychach of PLN 1,500 thousand.

5.4. Other operating expenses

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Loss on disposal of assets:	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses	1,758	6,535
Donations	63	16
Paid damages	158	479
Costs of litigations	284	395
Costs of performance bonds	255	16
Revaluation of inventories	0	420
Creation of write-downs of receivables	696	1,250
Remission of debt	3	276
Allowance for investment property	0	3,500
Other	299	183
Total	1,758	6,535

Other operating expenses include the 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.

In 2015, the write-down of investment property was a result of the realignment to match market prices.

5.5. Financial income

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Interest income:	1,546	788
Interest on bank deposits	1,430	503
Interest on loans	3	61
Interest on receivables	113	224
Foreign exchange gains	768	59
Gain on disposal of investments	0	0
Dividend income	0	0
Other	351	6
Discount of long-term provisions	89	0
Discount of long-term payables	61	0
Discount of long-term receivables	0	0
Discount of long-term items	0	0
Realisation of financial instruments	0	0
Other	201	6
Total	2,665	853

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

In 2016, discount rate was raised by the Company from 3% to 3.5%.

5.6. Financial expenses

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Interest expenses:	446	488
Interest on bank overdrafts and credits	0	113
Interest on finance lease liabilities	440	292
Interest on loan	0	0
Interest on trade and other payables	6	83
Other financial expenses:	634	7,361
Foreign exchange losses	0	0
Discount of long-term items	431	575
Realisation of financial instruments	0	0
Allowance for investments in subordinates	118	6,762
Other	85	24
Total	1,080	7,849

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

In 2016, discount rate was raised by the Company from 3% to 3.5%.

Following a test for the impairment of investments in subordinates, the impairment loss of PLN 6,762 thousand was recognised by the Company in 2015 (BPK Poznań) and of PLN 118 thousand in 2016 (RTI).

5.7. Corporate income tax

Corporate income tax recognised in profit or loss

	(PLN '000)	
	Year ended 31-12-2016	Year ended 31-12-2015
Current income tax	1,090	7,067
Deferred tax	-242	-1,571
Total tax expense/income	848	5,496

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 tax liability 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 is a tax capital group nor operates in a Special Economic Zone. Tax year and financial year coincide with a calendar year.

Current income tax

	(PLN '000)	
	Year ended 31-12-2016	Year ended 31-12-2015
Gross profit (loss)	2,328	20,845
Difference between gross profit (loss) and income tax base:	-43,750	15,717
- differences between gross profit and taxable income resulting from costs that are not tax-deductible under tax regulations and revenue not classified as revenue under tax regulations and additional costs and revenue	-43,750	25,684
- other differences (including loss brought forward)	0	-9,967
Profit/loss	-41,422	36,562
Income tax base	0	36,562
Income tax at the applicable rate of 19%	0	6,947
Income tax on profit earned abroad	978	120
Tax increases, waivers, exemptions, deductions and reductions	0	0
Adjustment of income tax from previous years	112	0
Current income tax	1,090	7,067

Current tax assets and liabilities

	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Current tax assets		
Tax refundable	0	3,954
Total	0	3,954

Current tax liabilities

Tax payable	0	0
Total	0	0

Deferred tax balance

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Deferred tax balance at the beginning of the year	8,233	6,659
Merger opening balance	0	0
Temporary differences relating to deferred tax assets:	13,642	20,798
Provisions for expenses and accruals	8,322	13,241
Discount of receivables	269	188
Liabilities under leases	314	412
Other, including allowances for receivables	2,344	4,339
Tax work in progress	2,393	2,618
Deferred tax reclassified from equity	0	0
Temporary differences relating to deferred tax liabilities:	13,047	12,565
Measurement of long-term contracts	3,317	2,627
Property, plant and equipment and intangible assets	9,333	9,634
Discount of payables	330	302
Other	67	2
Unused tax losses and other tax credits:	7,870	0
Tax losses	7,870	0
Tax credits	0	0
Other	0	0
Total temporary differences relating to deferred tax assets:	21,512	20,798
Total temporary differences relating to deferred tax liabilities:	13,047	12,565
Deferred tax balance at the end of the year	8,465	8,233
Change in deferred tax, including:	232	1,574
- recognised in income	242	1,571
- recognised in equity	-10	3

The recognition of deferred tax in equity is a result of calculating tax on liabilities under employee benefits presented in comprehensive income.

5.8. Profit (loss) per share

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Basic profit (loss) per share	0.06	0.67
Total basic profit (loss) per share	0.06	0.67
Diluted profit (loss) per share	0.07	0.67
Total diluted profit (loss) per share	0.07	0.67

Basic profit (loss) per share

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

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Profit (loss) per share for the financial year attributable to the shareholders of the parent	0.06	0.67
Total profit (loss) used in the calculation of basic profit per share	1,479,694.72	15,348,948.76
Weighted average number of ordinary shares used in the calculation of profit (loss) per share	23,030,083	23,030,083

Diluted profit (loss) per share

Profit (loss) used in the calculation of diluted profit (loss) per share does not differ from the profit used in the calculation of basic profit (loss) per share as at 31 December 2016.

5.9. Property, plant and equipment

(PLN '000)

	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Gross value									
Balance at 1 January 2016	0	24,469	36,935	45,713	2,003	109,120	10,197	0	119,317
Additions	0	73	10,563	7,097	0	17,733	1,184	2,967	21,884
Transfer to non-current assets	0	0	0	0	0	0	10,863	0	10,863
Liquidations	0	0	794	1,956	54	2,804	0	0	2,804
Balance at 31 December 2016	0	24,542	46,704	50,854	1,949	124,049	518	2,967	127,534
Depreciation and impairment									
Balance at 1 January 2016	0	6,121	15,836	17,928	1,447	41,332	0	0	41,332
Elimination on disposal of assets	0	0	769	1,442	53	2,266	0	0	2,266
Depreciation expense	0	799	3,140	4,023	171	8,133	0	0	8,133
Balance at 31 December 2016	0	6,920	18,207	20,509	1,565	47,199	0	0	47,199
Carrying amount									
Balance at 1 January 2016	0	18,348	21,099	27,785	556	67,788	10,197	0	77,985
Balance at 31 December 2016	0	17,622	28,497	30,345	384	76,850	518	2,967	80,335

Total property, plant and equipment held by the Company as at 31 December 2016 are worth PLN 80,335 thousand (PLN 77,985 thousand in 2015). No impairment losses were recognised by the Company.

As at 31 December 2016, liabilities incurred by the Company to purchase property, plant and equipment amounted to PLN 1,265 thousand. As at 31 December 2016, gross carrying amount of fully depreciated property, plant and equipment still used by the Company was PLN 8,625 thousand.

Assets pledged as security

Note 5.24 deals with the real estate encumbered to secure the agreements with banks. The Company's obligations under finance lease (note 5.31) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

5.10. Investment property

	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other
Gross value						
Balance at 1 January 2016	126	5,228	5,186	0	0	0
Additions	0	0	0	0	0	0
Adjustment	0	0	0	0	0	0
Impairment	0	0	0	0	0	0
Liquidations	0	0	0	0	0	0
Balance at 31 December 2016	126	5,228	5,186	0	0	0
Carrying amount						
Balance at 1 January 2016	0	1,161	1,557	0	0	0
Elimination on disposal of assets	0	0	0	0	0	0
Depreciation expense	0	172	302	0	0	0
Balance at 31 December 2016	0	1,333	1,859	0	0	0
Balance at 1 January 2016	126	4,067	3,629	0	0	0
Balance at 31 December 2016	126	3,895	3,327	0	0	0

As at 31 December 2016, investment property included:
- real estate in Kościelisko (plots no. 2001 and 2491); and
- real estate in Poznań (plot no. 2/1).

All of the Company's investment property is held either as freehold or leasehold interests. No impairment losses were recognised by the Company in 2016. The total value of impairment losses recognised in previous years is PLN 3,970 thousand.

The investment property was valued at purchase price less impairment losses. Income from the lease of the investment property in 2016 was PLN 376 thousand (PLN 70 thousand in 2015). Operating expenses relating to the investment property amounted to PLN 891 thousand (PLN 617 thousand in 2015).

5.11. Non-current assets held for sale

No non-current assets held for sale were held by the Company as at 31 December 2016.

5.12. Intangible assets

Structure of intangible assets:

	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Acquired concessions, patents, licenses and similar assets, including:	971	1,379
- Software	971	1,379
Other intangible assets, including:	8,148	8,259
- Leasehold	8,148	8,259
Total	9,119	9,638

Movements of intangible assets:

	(PLN '000)		
	Leasehold	Other intangible assets – software	Total
Gross value			
Balance at 1 January 2016	9,038	3,810	12,848
Additions	0	97	97
Disposals or classification as held for sale	0	1	1
Balance at 31 December 2016	9,038	3,906	12,944
Amortisation and impairment			
Balance at 1 January 2016	779	2,431	3,210
Amortisation expense	111	505	616
Adjustment	0	0	0
Disposals or classification as held for sale	0	1	1
Balance at 31 December 2016	890	2,935	3,825
Carrying amount			
Balance at 1 January 2016	8,259	1,379	9,638
Balance at 31 December 2016	8,148	971	9,119

No impairment losses were recognised by the Company.

5.13. Goodwill

At cost	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Goodwill of PRK	31,172	31,172
Balance at the end of the reporting period	31,172	31,172

ZUE merged with PRK on 20 December 2013. The control of PRK was gained 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 gained 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.

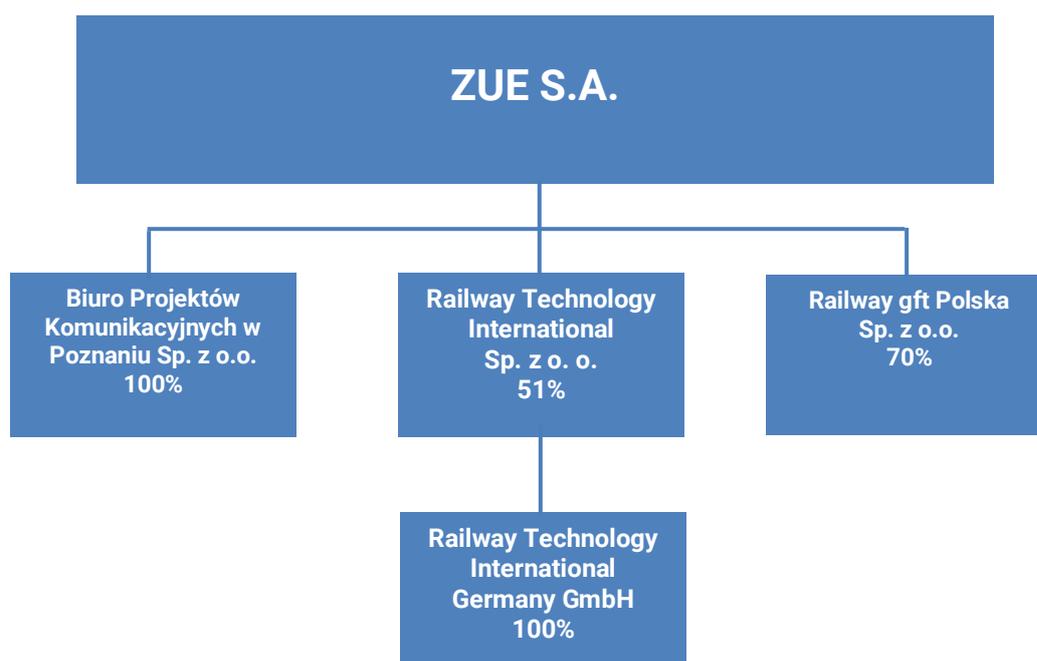
The Management Board of ZUE carried out a test for the impairment of goodwill arising on acquisition of PRK SA. The test revealed that at the end of the reporting period, there was no need to recognise any impairment loss. The test was carried out using the FCF approach in a five-year time horizon. According to the Company's principles, the recoverable amount of an asset was measured at fair value. The recoverable amount was determined using the discounted future cash flows method. The rate of average weighted cost of capital including projected structure and the cost of financing, and the market risks was at 11%.

5.14. Investments in and advances to subordinates

Information on the Company's subsidiaries

At the end of the reporting period, ZUE had investments in subsidiaries. The Capital Group emerged on 6 January 2010 (date of acquisition of 85% of shares in the share capital of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. from the State Treasury).

Structure of the Capital Group at 31 December 2016 and at the date of the report approval:



The Issuer's subsidiaries at the end of the reporting period:

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

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

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

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

Company name	Core business	Registered office and principal place of business	Interests		Value at historical cost	
			As at 31-12-2016	As at 31-12-2015	As at 31-12-2016	As at 31-12-2015
			%	%	PLN	PLN
Railway GFT Polska Sp. z o.o.	Sales activities	Cracow	70%	70%	210,000.00	210,000.00
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Preparation of comprehensive design documentation	Poznań	100%	100%	8,762,499.68	8,762,499.68
Railway Technology International Sp. z o.o.	Holding activities	Cracow	51%	51%	117,835.50	28,585.50
Total investments in subordinates					9,090,335.18	9,001,085.18
Write-down of shares of BPK Poznań (cumulative)					8,762,499.68	8,762,499.68
Write-down of shares of RTI (cumulative)					117,835.50	0.00
Total investments in subordinates net of write-downs					210,000.00	238,585.50

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

ZUE holds a 51% interest in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated as at 31 December 2016.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Germany GmbH was not consolidated as at 31 December 2016.

RTI

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

5.15. Other financial assets

(PLN '000)

	Current		Non-current	
	As at	As at	As at	As at
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Debt financial instruments	54,935	0	0	0
Other	0	0	0	0
Total	54,935	0	0	0

Debt financial instruments include short-term bank bonds maturing in February 2017.

5.16. Other assets

(PLN '000)

	Current		Non-current	
	As at	As at	As at	As at
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Prepayments	1,198	1,061	0	0
Other receivables	0	0	0	0
Total	1,198	1,061	0	0

Short-term prepayments mainly include items such as property insurance.

5.17. Advanced loans

(PLN '000)

	As at	As at
	31-12-2016	31-12-2015
Loans advanced to related entities	58	158
Loans advanced to other entities	289	0
Impairment losses	-58	0
Total	289	158

Advanced loans include principal and interest charged at the end of the reporting period.

5.18. Inventories

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Materials	5,239	16,585
Work in progress	759	1,581
Finished goods	198	202
Total	6,196	18,368

At the end of the reporting period, inventories amounted to PLN 6,196 thousand (PLN 18,368 thousand in 2015). The decrease followed the consumption of the inventories in order to perform construction contracts.

5.19. Trade and other receivables

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Trade receivables	65,107	71,000
Write-downs of trade receivables	-14,699	-14,167
Receivables from the state budget other than corporate income tax	4,251	2
Receivables under contracts (measurement)	17,460	13,825
Advance payments	2,563	2,973
Other receivables	255	256
Total trade and other receivables	74,937	73,889

Total trade receivables as at 31 December 2016 amounted to PLN 65,107 thousand (PLN 71,000 thousand at the end of 2015). The balance of trade receivables does not include past due receivables for which write-down was recognised.

Ageing analysis of receivables that are past due but not impaired

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Not past due receivables	43,942	37,620
Receivables that are past due but not impaired	6,466	19,213
1-30 days	4,267	14,089
31-60 days	240	1,215
61-90 days	492	17
91-180 days	48	3,365
181-360 days	154	43
360 + days	1,265	484
Past due receivables on which write-downs were recognized	14,699.0	14,167.0
1-30 days	9	288
31-60 days	6	51
61-90 days	0	204

91-180 days	2,010	304
181-360 days	725	203
360 + days	11,949	13,117
Total trade receivables (gross)	65,107	71,000
Write-downs of trade receivables	-14,699	-14,167
Total trade receivables (net)	50,408	56,833

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

(PLN '000)

	As at 31-12-2016
Counterparty A	25,000
Counterparty B	9,499
Counterparty C	7,987
Total	42,486

The structure of ZUE's customer base reflects the nature of the services sold by the Company by way of tenders and/or trade negotiations.

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

Long-term receivables

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Trade receivables	0	0
Allowance for doubtful debts	0	0
Discount of long-term receivables	0	0
Total	0	0

Trade receivables

(PLN '000)

	Gross value of long-term receivables
Balance at the beginning of the year	0
Increases	0
Decreases	0
Transferred to short-term receivables	0
Discount	0
Balance at the end of the year	0

5.20. Share capital

(PLN)

Share capital

	As at 31-12-2016	As at 31-12-2015
Registered capital	5,757,520.75	5,757,520.75
Amount recognised in the financial statements	5,757,520.75	5,757,520.75

Share capital as at 13 March 2017

(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			

At 31 December 2016, the share capital structure was the same as at 13 March 2017.

5.21. Share premium account

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Balance at the beginning of the year	93,837	93,837
Share issue	0	0
Issue costs	0	0
Balance at the end of the year	93,837	93,837

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. The Company did not launch any new issue of shares in 2014-2016.

5.22. Treasury shares

At this report preparation date, the Company holds 264,652 treasury shares worth PLN 2,690 thousand. The shares were acquired by the Company from the employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., the company which merged with ZUE S.A., as part of the buy-back effected in 2015. The shares were bought back on the basis of the Resolution no. 4 passed by the Company's Extraordinary General Meeting on 8 December 2014 authorising the Management Board of ZUE S.A. to buy back own shares. The transaction was described in detail in note no. 25 of the consolidated financial statements for the year ended 31 December 2015.

5.23. Retained earnings

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Balance at the beginning of the year	118,706	103,369
Opening balance adjustment	0	0
Opening balance restatement	118,706	103,369
Net profit distribution	15,337	10,528
Reserve funds	15,337	10,528
Capital reserve	0	0
Coverage of loss brought forward	0	0
Distributable profit for the year	1,525	15,337
Payment of dividend for the preceding year	-7,513	0
Interim dividend for the current year	0	0
Change in net profit according to IFRS	0	0
Retained earnings from merger	0	0
Balance at the end of the year	112,718	118,706

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 2016 include:

	<i>(PLN '000)</i>
- Reserve funds (without share premium account):	PLN 66,651
- Capital reserve:	PLN 39,435
- Profit (loss) brought forward:	PLN -570
- Comprehensive income for the current year:	PLN 1,525
- Equity changes resulting from the merger:	PLN 5,677

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. The Company's capital reserve meets the requirements of Art. 396 of the Act.

5.24. Loans, bank credits and other financing sources

	<i>(PLN '000)</i>	
	As at 31-12-2016	As at 31-12-2015
Long-term	8,875	11,155
Bank credits	0	0
Loans from:		
related entities	0	0
other entities	0	0
Finance lease liabilities	8,875	11,155
Short-term	5,765	6,111
Bank credits	0	0
Loans from:		
related entities	0	0
other entities	0	0
Finance lease liabilities	5,765	6,111
Settlement of commission on bank credit	0	0
Total loans and bank credits	14,640	17,266

Summary of credit agreements

Balance at 31 December 2016

(PLN '000)

Bank	Description	Principal according to the agreement (PLN '000)	Debt (PLN '000)	Interest	Repayment date	Security
Overdrafts			31-12-2016			
mBank S.A. (i) (viii)	Overdraft (agreement no. 07/183/04/Z/VV)	5,000	0	O/N WIBOR for interbank credits + margin	2017-05-12	Blank bill of exchange with declaration.
Other credit facilities						
mBank S.A. (ii) (iii) (iv) (v) (vi) (ix)	Cooperation agreement (agreement no. 07/052/14/Z/PX)	40,000	13,687	3M WIBOR + margin	2017-07-20	1. Capped contractual mortgage up to PLN 35,421 thousand on the following real estate: WA5M/00242445/1, KR1P/00199773/5, KR1P/00204399/8. 2. Deposit.
	sublimit for bonds	25,000	13,687			
	sublimit for revolving credits	30,000	0			
BNP Paribas S.A. (vii)	Financing agreement no. WAR/2001/15/289/CB	100,000	35,899	1M WIBOR + margin	Term of credit: by 2025-12-10 First disbursement: by 2017-12-08	1. Blank bill of exchange. 2. Capped contractual mortgage up to PLN 150,000 thousand on the following real estate: KW NS1Z/00010662/9, KW NS1Z/00010740/0, KW NS1Z/00024399/5. 3. Assignment of rights under insurance policy for at least PLN 4,200 thousand.

4. Security deposit each time before the issue of bond expiring after 37 months:

- a) 15% of the bond expiring between 37 and 61 months;
- b) 30% of the bond expiring after 61 months.

5. Borrower's statement on submission to enforcement.

including:

Revolving credit
agreement no.
WAR/2001/15/290/CB

30,000

0

Credit term: by 2025-12-10
First disbursement: by 2017-
12-08

- 1. Securities provided under Financing Agreement no. WAR/2001/15/289/CB.
- 2. Assignment under contracts submitted by the Borrower.

Bond line agreement
no.
WAR/2001/15/291/CB-
line with revolving limit

70,000

35,899

Credit term: by 2025-12-10
First disbursement: by 2017-
12-08

- 1. Securities provided under Financing Agreement no. WAR/2001/15/289/CB.

**Total
credits**

0

**Total
bonds**

49,586

- (i) Agreement signed on 29.11.2009.
 - a) Credit no. 07/183/04/Z/VV is secured only by a blank bill of exchange (security changed under the Annex no. 12 of 05.05.2014).
 - b) Credit no. 07/183/04/Z/VV – repayment date extended until 13.05.2016 (Annex no. 13 of 13.05.2015).
- (ii) Agreement signed on 29 July 2014, secured by a mortgage.
- (iii) Annex no. 1 of 29.12.2014 whereby the limit was reduced to PLN 20,000 thousand.
- (iv) Annex no. 2 of 01.04.2015 whereby the limit was increased to PLN 70,000 thousand.
- (v) Annex no. 3 of 15.06.2015 whereby the limit was increased to PLN 90,000 thousand.
- (vi) Under the Annex no. 5 of 22.12.2015, the limit was reduced to PLN 20,000 thousand until 31.01.2016.
- (vii) Agreement signed on 10 December 2015.
- (viii) Annex no. 14 of 11.05.2016 whereby the limit was reduced to PLN 5,000 thousand and the financing was extended for another year.
- (ix) Annex no. 6 of 29.06.2016 whereby the limit was reduced to PLN 40,000 thousand.

5.25. Other financial liabilities

(PLN '000)

	Current		Non-current	
	As at 31-12-2016	As at 31-12-2015	As at 31-12-2016	As at 31-12-2016
Financial liabilities relating to share buy-back	0	0	0	0
Other liabilities	37	37	0	0
Total	37	37	0	0

5.26. Other liabilities

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Other liabilities	630	910
Total	630	910

Other non-current liabilities of PLN 630 thousand (PLN 910 thousand in 2015) result from the purchase of real estate from a subsidiary.

5.27. Provisions

The following table sets out the changes in provisions.

(PLN '000)

Provisions	01-01-2016	Created	Used	Released	Reclassified	31-12-2016	Item
Long-term provisions:	7,639	1,239	420	450	-288	8,296	
Provisions for employee benefits	697	43	0	0	0	740	Liabilities under employee benefits (long-term)
Provisions for warranty claims	6,942	1,196	420	450	-288	7,556	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	29,131	15,554	14,965	13,776	288	15,656	
Provisions for employee benefits	16,377	11,340	14,317	1,714	0	11,686	Liabilities under employee benefits (short-term)
Provisions for warranty claims	9,191	129	648	5,163	288	3,221	Short-term provisions
Provision for loss on contracts	1,996	4,085	0	5,332	0	749	Short-term provisions
Other provisions	1,567	0	0	1,567	0	0	Short-term provisions
Total provisions:	36,770	16,793	15,385	14,226	0	23,952	

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Company depending on the amount of revenues. The amount of provisions may decrease or increase on the basis of inspections of construction works carried out in subsequent years of warranty.

Provisions for employee benefits include the provisions for leaves, bonuses, overtime work as well as liabilities under wages and salaries and social security premiums. The decrease in provisions for employee benefits in the reporting period is mainly a result of lower provisions for contract bonuses and release of provisions.

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

Released provisions are mainly influenced by a release of the provision in connection with the agreement with Przedsiębiorstwo Komunikacji Miejskiej w Tychach of PLN 1,500 thousand.

5.28. Construction contracts

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

Selected items

	<i>(PLN '000)</i>	
	As at	As at
	31-12-2016	31-12-2015
Assets	74,315	75,712
including:		
- Valuation of contracts	17,460	13,825
- Advance payments for contracts	0	2,973
Liabilities	73,723	135,194
including:		
- Valuation of contracts	1,413	14,346
- Provisions for contract costs	18,802	52,093
Received advance payments for contracts	0	0
Revenue under construction contracts	276,023	466,679
Expenses under construction contracts	264,047	422,573
Gross profit (loss)	11,976	44,106

5.29. Retentions on construction contracts

	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Retained by customers – to be repaid after 12 months	6,819	5,288
Retained by customers – to be repaid within 12 months	2,101	602
Total retentions on construction contracts retained by customers	8,920	5,890
Retained for suppliers – to be repaid after 12 months	6,717	7,991
Retained for suppliers – to be repaid within 12 months	9,117	11,668
Total retentions on construction contracts retained for suppliers	15,834	19,659

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. The discount rate in 2016 was 3.5% while in 2015, it was 3%. In addition, a deferred tax is recognized in the balance sheet on the stated amounts and 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.

Discount recognised in profit or loss:

	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Discount of long-term retentions on construction contracts retained by customers	539	418
Discount of long-term retentions on construction contracts retained for suppliers	945	884
Adjustment of financial income	0	0
Adjustment of financial expenses	280	574
Deferred tax on above adjustments	53	109

Net effect on profit or loss**-227****-465****Ageing analysis of past due retentions on construction contracts (nominal values 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:

	<i>(PLN '000)</i>	
	As at 31-12-2016	As at 31-12-2015
Past due retentions on construction contracts:		
– up to 1 month	0	552
– 1 - 3 months	3	8
– 3 - 6 months	0	0
– 6 months - 1 year	0	95
– over 1 year	292	204
Total past due retentions on construction contracts (gross)	295	859
Write-downs	-295	-298
Total past due retentions on construction contracts (net)	0	561

Risk of interest rate fluctuations

The effective interest rate at 31 December 2016 used to discount the retentions on construction contracts was 3.5% (3% in 2015).

5.30. Trade and other payables

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Trade payables	53,329	39,251
Liabilities to the state budget other than corporate income tax	837	5,447
Accruals	19,060	52,358
Liabilities under contracts (measurement)	1,413	14,346
Other payables	101	979
Total trade and other payables	74,740	112,381

Total trade and other payables as at 31 December 2016 amounted to PLN 53,329 thousand (PLN 39,251 thousand in 2015). Accruals include, in particular, provisions for the expenses associated with subcontractors and provisions for contract settlement risks.

Ageing analysis of trade payables

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Not past due payables	50,937	30,494
Past due payables	2,392	8,757
1-30 days	2,138	7,669
31-60 days	57	841
61-90 days	9	31
91-180 days	1	8
181-360 days	4	141
360 + days	183	67
Total trade payables	53,329	39,251

5.31. Obligations under finance lease

General terms of lease

The term of finance lease agreements concerning manufacturing equipment 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 leases are secured by the lessor's title to the leased assets or the lessor's authority given by ZUE to charge the Company's bank account.

Obligations under lease

(PLN '000)

	Minimum lease payments		Present value of minimum lease payments	
	As at	As at	As at	As at
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Not later than one year	6,141	6,543	5,765	6,111
Later than one year and not later than five years	9,204	11,704	8,875	11,155
Later than five years	0	0	0	0
Less: future finance charges	-705	-981	0	0
Present value of minimum lease payments	14,640	17,266	14,640	17,266

Presented in the financial statements as:

Short-term credits (note no. 5.24)	5,765	6,111
Long-term credits (note no. 5.24)	8,875	11,155

5.32. Obligations under retirement and other benefits

Following the amendments to IAS 19 "Employee Benefits," actuarial gains and losses have been recognized by the Company since 1 January 2013 in the statement of comprehensive income.

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:

	As at 31-12-2016	(PLN '000) As at 31-12-2015
Pension and retirement gratuities, including:	813	863
– present amount of obligation at the end of the reporting period	813	863
– actuarial gains / (losses) unrecognised at the end of the reporting period	0	0
– past service cost unrecognised at the end of the reporting period	0	0
Obligations to employees	0	0
Other employee benefits	16,489	21,781
– provision for unused leaves	3,594	3,578
– provision for bonuses and overtime work	8,019	12,633
– salaries and wages	2,648	2,881
– social security and other benefits	2,228	2,689
Total obligations under retirement and other benefits	17,302	22,644
including:		
– long-term	740	697
– short-term	16,562	21,947

Main actuarial assumptions for determining obligations under pension and retirement gratuities:

	As at	As at
	31-12-2016	31-12-2015
Discount rate	3.41%	2.9%
Expected future rise in wages and salaries	2.5%	2.5%

Pension and retirement gratuities

	<i>(PLN '000)</i>	
	As at	As at
	31-12-2016	31-12-2015
Present amount of obligation at the beginning of the year	863	852
Interest cost	24	21
Current service cost	70	69
Past service cost	116	0
Benefits paid	-204	-93
Actuarial (gains) / losses	-56	14
Present amount of obligation at the end of the year	813	863

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

	(PLN '000)	
	As at	As at
	31-12-2016	31-12-2015
Current service cost	70	69
Interest cost	24	21
Actuarial (gains)/ losses recognised in the year	-56	14
Past service cost	116	0
Costs recognised in statement of comprehensive income	154	104
Amount recognised in profit or loss	210	90
Amount recognised in other comprehensive income (without deferred tax)	-56	14

Provision for pension and retirement gratuities is created on the basis of actuarial valuation made by an independent actuarial consultancy company.

5.33. 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.

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Long- and short-term loans and bank credits and other financing sources	14,640	17,266
Long- and short-term other financial liabilities	37	37
	14,677	17,303
Cash and cash equivalents	61,207	169,795
Other financial assets	54,935	0
	116,142	169,795
Net debt	-101,465	-152,492
Equity	209,623	215,611
Net debt to equity ratio	-48.40%	-70.73%

5.34. Financial risk management

The main financial instruments used by the Company include:

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

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

Foreign exchange risk

As part of its operations, the Company makes settlements in foreign currencies, mainly in EUR. The foreign exchange risk is mainly hedged by concluding contracts with counterparties whereby the risk is transferred to them. If this is not possible, currency exposure (if relevant) is hedged on the financial market using currency futures.

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 2016.

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 '000)

	Currency	Carrying amount at the end of the reporting period (PLN '000)	Sensitivity to changes at 31 December 2016	
			Depreciation of PLN	Appreciation of other currencies
			+5% (EUR/PLN)	-5% (EUR/PLN)
Cash	EUR	17,369	868	-868
	RBL	0	0	0
	USD	0	0	0
	HRK	1	0	0
	BGN	0	0	0
	KES	0	0	0
Trade and other payables	EUR	255	-13	13
Trade and other receivables	EUR	0	0	0
Gross effect on profit or loss of the period and net assets			855	-855
Deferred tax			-162	162
Total			693	-693

The Company had no futures at 31 December 2016.

Interest rate risk

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

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 2016. 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 profit or loss of the period and net assets as at 31 December 2016.

	Amount at the end of the reporting period (PLN '000)	(PLN '000)	
		31 December 2016	
		+100 bp (PLN)	-100 bp (PLN)
Long-term retentions on construction contracts (discount):			
– recognised in assets (present value)	6,819	-344	369
– recognised in liabilities (present value)	6,717	-228	244
Cash at banks (nominal value / interest)	61,207	612	-612
Bank bonds	54,935	549	-549
Advanced loans (nominal value / interest)	289	3	-3
Bank credits and loans (nominal value / interest)	0	0	0
Finance lease liabilities (present value / interest)	14,640	-146	146
Gross effect on profit or loss of the period and net assets		446	-405
Deferred tax		-85	77
Total		361	-328

Price risk

The Company is exposed to price risk relating to the increase in prices of the most popular products and raw materials such as concrete, aggregates, steel elements (including HV tram and rail traction network posts, lamp posts, rails or crossovers) and copper and aluminium elements (including power cables, lines and contact wires) and, given a big number of machines, liquid fuels (including diesel oil and petrol).

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

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

Credit risk

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

The Company's financial assets exposed to increased credit risk include trade receivables (except for trade receivables from contracting authorities (investors) as part of projects executed pursuant to the Public Procurement Act). A credit risk is assessed and verified by the Company both with the contracting authority and suppliers 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.

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, credits and long-term finance lease agreements to finance its investments and to ensure appropriate stability of financing structure for this type of assets.

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

The maturity structure for financial liabilities is set out in Note 5.35 – Financial instruments.

5.35. 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.

Balance at 31 December 2016

(PLN '000)

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	0	8,920	0	15,834
Trade and other receivables including: amounts receivable from customers under construction contracts – advance payments	0	0	74,937	0	0
Debt financial instruments - bonds	0	0	54,935	0	0
Derivative financial instruments and other financial liabilities	0	0	0	0	0
Advanced loans	0	0	289	0	0
Cash and cash equivalents	0	61,207	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	14,640
Trade and other payables including: amounts payable to customers under construction contracts – advance payments	0	0	0	0	74,740
Total	0	61,207	139,081	0	105,214

Reclassifications of financial assets

No financial instruments were reclassified by the Company during the reporting period.

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

(PLN '000)

	As at	As at
	31-12-2016	31-12-2015
Age structure		
– less than 1 year	89,438	130,159
– 1 - 3 years	13,096	13,140
– 3 - 5 years	1,211	4,941
– 5 years +	1,469	1,065
Total	105,214	149,305

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.

Derivative instruments

No derivative instrument transactions were entered into by the Company in 2016 or 2015.

5.36. Transactions with related entities

Trade transactions

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

(PLN '000)

	Receivables		Payables	
	As at		As at	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Railway GFT	69	4,435	21,816	40
BPK Poznań	13	9	1,149	2,253
RTI	0	1	0	0
RTI Germany	0	0	0	19
Wiesław Nowak	0	0	0	0
Total	82	4,445	22,965	2,312

	Revenue		Purchases	
	Year ended		Year ended	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Railway GFT	572	23,353	74,961	11,776
BPK Poznań	572	367	870	5,430
RTI	3	12	0	0
RTI Germany	0	0	113	946
Wiesław Nowak	0	0	0	0
Total	1,147	23,732	75,944	18,152

	Advanced loans		Financial income (interest)	
	As at		As at	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	58
RTI	0	158	0	3
RTI Germany	58	0	0	0
Wiesław Nowak	0	0	0	0
Total	58	158	0	61

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

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

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

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

- o Equipment services; and
- o Transport services.

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

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

According to the Group's strategy, materials were purchased in 2016 by Railway gft, a subsidiary.

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

In 2016, BPK Poznań leased business establishments from ZUE on the basis of the lease signed on 1 October 2015 and the lease signed on 7 April 2010 (as amended).

On 26 January 2016, loans plus interest were repaid by RTI.

On 31 May 2016, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan. The loan was advanced in instalments according to the schedule. The amount of EUR 13 thousand was advanced by the end of the reporting period. The amount of EUR 1 thousand was advanced on 5 January 2017.

In 2016, RTI Germany provided market research services for future projects to ZUE.

At the end of 2016, the value of guarantees provided to secure the transactions entered into by subsidiaries is PLN 15,709 thousand. The value of guarantees provided to secure the trade transactions entered into by subsidiaries is PLN 220 thousand and EUR 300 thousand.

5.37. Proceedings before court, arbitration court or public administration authority at the date of this report preparation

At 13 March 2017, ZUE is a party to the pending court proceedings concerning the Company's claims and liabilities of the total value of PLN 49,980 thousand; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 751 thousand and the total value of the proceedings concerning claims is PLN 49,229 thousand.

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

The court cases have been described in detail in the consolidated financial statements.

5.38. Remuneration of key management personnel

Remuneration of the Management Board members and other members of key management personnel during the financial year:

<i>(PLN '000)</i>				
	Period	Remuneration	Period	Remuneration
Management Board				
Wiesław Nowak	01.2016-12.2016	1,074	01.2015-12.2015	847
Jerzy Czeremuga	01.2016-12.2016	514	01.2015-12.2015	518
Marcin Wiśniewski	01.2016-12.2016	543	01.2015-12.2015	530
Anna Mroczek	01.2016-12.2016	525	01.2015-12.2015	515

Maciej Nowak	01.2016-12.2016	514	01.2015-12.2015	518
Arkadiusz Wierciński	01.2016-12.2016	n/a	01-2015-07.2015	427
Proxy				
Barbara Nowak	01.2016-12.2016	286	01.2015-12.2015	286
Supervisory Board				
Bogusław Lipiński	01.2016-12.2016	181	01.2015-12.2015	176
Magdalena Lis	01.2016-12.2016	148	01.2015-12.2015	120
Michał Lis	01.2016-12.2016	128	01.2015-12.2015	180
Mariusz Szubra	01.2016-12.2016	12	01.2015-12.2015	12
Piotr Korzeniowski	01.2016-12.2016	12	01.2015-12.2015	12
Total		3,937		4,141

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.

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.

At the end of the reporting period, the Company has no liabilities under retirement pensions or similar benefits for former members of supervisory and managing personnel or liabilities incurred in connection with the said pensions.

5.39. Dividend

The Company's General Meeting decided to pay dividend for 2015 (PLN 0.33 per share).

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

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

The Company's Supervisory Board gave a positive opinion about the abovementioned recommendations.

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

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

The distribution of the net profit for the financial year 2015 did not include 264,652 treasury shares acquired by the Company on the basis of the Resolution no. 4 of the Extraordinary General Meeting of 8 December 2014.

5.40. 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, net 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 related items as follows:

	(PLN '000)	
	As at	As at
	31-12-2016	31-12-2015
Cash on hand and at banks	52,707	84,795
Bank deposits up to three months	8,500	85,000
TOTAL	61,207	169,795

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

5.41. Non-cash transactions and sources of finance

In 2016, the non-cash transactions relating to investing and financing activities, which are not reflected in the statement of cash flows, included the acquisition of property, plant and equipment of PLN 4,650 thousand under a finance lease.

In 2015, the non-cash transactions relating to investing and financing activities, which are not reflected in the statement of cash flows, included the acquisition of property, plant and equipment of PLN 14,078 thousand under a finance lease.

5.42. Operating lease arrangements

Company as lessee

Operating lease relates to the following leasehold property:

- Undeveloped 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 registers no. KW no. KR1P/00204399/8 and KR1P/00199773/5.
- Developed property in Cracow, district 4, comprising the plot no. 527/26 – Land and mortgage register no. 185225.
- Undeveloped property in Kościelisko comprising the plots no. 2001 and 2491 – Land and mortgage register no. 10662 and 10740.
- Developed property in Poznań comprising the plot no. 2/1 – Land and mortgage register no. PO1P/00114066/6.

Leasing arrangements

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 163 thousand. The property is leasehold until 2089.

The annual lease payment for the leasehold land in the district 4 marked as the plot no. 527/26 is PLN 49 thousand. The property is leasehold until 2089.

The annual lease payment for the leasehold land in Kościelisko marked as the plots no. 2001 and 2491 is PLN 84 thousand. The property is leasehold until 2089.

The annual lease payment for the leasehold land in Poznań marked as the plot no. 2/1 is PLN 23 thousand. The property is leasehold until 2089.

Payments recognised as an expense

	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Minimum lease payments	314	284
Total	314	284

Liabilities under lease payments

	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Not later than 1 year	314	320
Later than 1 year and not later than 5 years	1,257	1,278
Later than 5 years	21,365	22,901
Total	22,936	24,499

5.43. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Bonds	27,489	26,509
Bills of exchange	4,364	4,266
Guarantees	0	0
Mortgages	0	0
Total	31,853	30,775

Contingent assets are the Company's security for construction contracts entered into by the Company with subcontractors.

Contingent liabilities

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Bonds	195,670	171,290
Guarantees	15,709	12,206
Bills of exchange	110,290	148,297
Mortgages	201,017	51,018
Pledges	0	13,706
Total	522,686	396,517

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

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

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

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

6. Events after the end of the reporting period

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

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

On 20 January 2017, the consortium of Trakcja PRKil S.A. (Leader), COMSA S.A., ZUE S.A., STRABAG sp. z o.o. and STRABAG Rail a.s entered into the design and construction contract with PKP PLK in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of the Infrastructure and Environment Operational Programme (IEOP) 5.2-5. The Company informed about the submission of the lowest price tender for the said project and the selection of the most economically advantageous tender in the current report 50/2016 and the current report 56/2016, respectively. The contract net value: 373.7m. The contract gross value: PLN 459.7m. The expected net remuneration attributable to the Company: PLN 124.5m. The project completion date: 30 months of the contract conclusion date. **(Current report 4/2017)**

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

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

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

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

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

On 17 February 2017, the consortium of Budimex S.A. (Leader), STRABAG sp. z o.o., STRABAG Rail a.s, STRABAG Rail GmbH, STRABAG Általános Építő Kft. and ZUE S.A. (the "Consortium") signed the design and construction contract with PKP PLK for the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia - Warszawa Gdańska section)." The Company informed about the selection of the consortium's tender as the most economically advantageous offer in the current report 53/2016. Net value of the contract: PLN 159.7m. The expected net remuneration attributable to the Company: PLN 52.7m. Project completion date: 26 months of the commencement of works. **(Current report 10/2017)**

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

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

Following the acceptance on 2 March 2017 by Wytwórnia Podkładów Strunobetonowych S.A. of an order worth PLN 27m for the supply of prestressed concrete sleepers to Railway gft, a subsidiary, the total value of contracts entered into in the 12 months between Railway gft and Wytwórnia Podkładów Strunobetonowych S.A. amounted to PLN 34m. **(Current report 13/2017)**

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

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

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

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

7. Approval of the financial statements

The financial statements were approved by the Management Board on 13 March 2017.

STATEMENT OF THE MANAGEMENT BOARD OF ZUE ON COMPLIANCE OF ANNUAL FINANCIAL STATEMENTS 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 2016 have been prepared in accordance with applicable accounting policies and give a true and fair view of the economic and financial position of the Company and its financial performance. The Report on Activities of ZUE for the year 2016 contains a true view of the Company's development and achievements, including the description of fundamental risks and threads.

Wiesław Nowak Management Board President

Anna Mroczek Management Board Vice-President

Jerzy Czeremuga Management Board Vice-President

Maciej Nowak Management Board Vice-President

Marcin Wiśniewski Management Board Vice-President

Cracow, 13 March 2017

