



ZUE Capital Group

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

Cracow, 13 March 2017

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Abbreviations and definitions:

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

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	143,917	32,531	141,321	33,163
Current assets	219,456	49,606	282,224	66,226
Total assets	363,373	82,137	423,545	99,389
Equity	209,282	47,306	216,344	50,767
Non-current liabilities	25,823	5,837	29,203	6,853
Current liabilities	128,268	28,994	177,998	41,769
Total equity and liabilities	363,373	82,137	423,545	99,389

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	343,017	78,391	542,122	129,545
Cost of sales	326,354	74,583	494,226	118,100
Gross profit (loss) on sales	16,663	3,808	47,896	11,445
Profit (loss) on operating activities	154	35	22,568	5,393
Gross profit (loss)	1,291	295	22,454	5,366
Net profit (loss) from continuing operations	406	93	17,470	4,175
Total comprehensive income	451	103	17,458	4,172

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	-38,014	-8,688	111,812	26,719
Cash flows from investing activities	-63,227	-14,450	-6,370	-1,522
Cash flows from financing activities	-9,065	-2,071	-4,185	-1,000
Total net cash flows	-110,306	-25,209	101,257	24,197
Cash at the beginning of the year	172,334	40,440	71,405	16,753
Cash at the end of the year	62,717	14,177	172,334	40,440

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on	Exchange rate on	Exchange rate on
		31-12-2016	31-12-2015	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

Consolidated statement of comprehensive income

(PLN '000)

Continuing operations	Note no.	Year ended 31-12-2016	Year ended 31-12-2015
Revenue	5.1	343,017	542,122
Cost of sales	5.3	326,354	494,226
Gross profit (loss)		16,663	47,896
General and administrative expenses	5.3	20,212	22,451
Other operating income	5.4	5,680	7,212
Other operating expenses	5.5	1,977	10,171
Gain on bargain purchase		0	82
Operating profit (loss)		154	22,568
Financial income	5.6	2,530	1,230
Financial expenses	5.7	1,393	1,344
Pre-tax profit (loss)		1,291	22,454
Corporate income tax	5.8	885	4,984
Net profit (loss) from continuing operations		406	17,470
Net profit (loss)		406	17,470
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		451	17,458
Number of shares		23,030,083	23,030,083
Consolidated net profit attributable to:			
Shareholders of the parent		809	17,206
Minority shareholders		-403	264

Net profit (loss) per share (PLN) (basic and diluted)	5.9	0.04	0.75
Total comprehensive income attributable to:			
Shareholders of the parent		854	17,194
Non-controlling interests		-403	264
Total comprehensive income per share (PLN)	5.9	0.04	0.75

Consolidated 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	5.10	83,416	81,619
Investment property	5.11	3,717	4,062
Intangible assets	5.13	9,595	10,178
Goodwill	5.14	31,172	31,172
Investments in non-consolidated subsidiaries	5.15	0	29
Advance payments for investments in subordinates	5.15	0	0
Long-term receivables	5.20	0	0
Retentions on construction contracts	5.29	7,334	5,614
Deferred tax assets	5.8	8,683	8,647
Other assets	5.17	0	0
Total non-current assets		143,917	141,321
Current assets			
Inventories	5.19	11,287	25,859
Trade and other receivables	5.20	86,609	77,839
Retentions on construction contracts	5.29	2,177	770
Current tax assets	5.8	64	4,030
Other financial assets	5.16	54,935	0
Other assets	5.17	1,378	1,234
Loans advanced	5.18	289	158
Cash and cash equivalents	5.39	62,717	172,334
Total current assets		219,456	282,224

Total assets		363,373	423,545
		<i>(PLN '000)</i>	
		As at	As at
Note no.		31-12-2016	31-12-2015
EQUITY AND LIABILITIES			
Equity			
Share capital	5.21	5,758	5,758
Share premium account	5.22	93,837	93,837
Treasury shares	5.23	-2,690	-2,690
Retained earnings	5.24	112,391	119,050
Total equity attributable to shareholders of ZUE		209,296	215,955
Equity attributable to non-controlling interests		-14	389
Total equity		209,282	216,344
Non-current liabilities			
Long-term loans and bank credits and other financing sources	5.25	8,892	11,208
Retentions on construction contracts	5.29	6,792	8,012
Other financial liabilities	5.26	630	910
Liabilities under employee benefits	5.32	1,864	1,946
Deferred tax liabilities	5.8	0	170
Long-term provisions	5.27	7,645	6,957
Deferred revenue		0	0
Other liabilities	5.27	0	0
Total non-current liabilities		25,823	29,203
Current liabilities			
Trade and other payables	5.30	82,094	117,730
Retentions on construction contracts	5.29	9,185	11,715
Short-term loans and bank credits and other financing sources	5.25	14,194	11,841
Other financial liabilities	5.26	317	317
Liabilities under employee benefits	5.32	17,928	22,988

Current tax liabilities	5.8	0	66
Short-term provisions	5.27	4,550	13,341
Total current liabilities		128,268	177,998
Total liabilities		154,091	207,201
Total equity and liabilities		363,373	423,545

Consolidated statement of changes in equity

(PLN '000)

Equity attributable to the Group's shareholders

		Share capital	Share premium account	Treasury shares	Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
Balance at	1 Jan 2016	5,758	93,837	-2,690	119,050	215,955	389	216,344
Change of interest in subsidiaries		0	0	0	0	0	0	0
Dividend		0	0	0	-7,513	-7,513	0	-7,513
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss) for the year		0	0	0	809	809	-403	406
Other net comprehensive income		0	0	0	45	45	0	45
Balance at	31 Dec 2016	5,758	93,837	-2,690	112,391	209,296	-14	209,282

		Share capital	Share premium account	Treasury shares	Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
Balance at	1 Jan 2015	5,758	93,837	0	101,856	201,451	0	201,451
Change of interest in subsidiaries		0	0	0	0	0	125	125
Dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	-2,690	0	-2,690	0	-2,690

Profit (loss) for the year	0	0	0	17,206	17,206	264	17,470
Other net comprehensive income	0	0	0	-12	-12	0	-12
Balance at	31 Dec 2015	5,758	93,837	-2,690	119,050	215,955	216,344

Consolidated 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	1,291	22,454
Adjustments for:		
Depreciation and amortisation	9,578	9,263
Foreign exchange gains / (losses)	-689	329
Interest and share in profit (dividends)	-621	-45
(Gain) / loss on disposal of investments	-157	4,673
Accrued expenses under commission on credits	5	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	9,407	36,882
Change in receivables and retentions on construction contracts	-13,541	111,397
Change in inventories	14,572	-5,862
Change in provisions and liabilities under employee benefits	-13,259	13,383
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	-37,902	-35,329
Change in accrued expenses	-138	813
Change in funds of limited availability	14	0
Other adjustments	110	244
Income tax paid / tax refund	2,723	-9,716
NET CASH FROM OPERATING ACTIVITIES	-38,014	111,812
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	599	5,154
Purchase of property, plant and equipment and intangible assets	-10,196	-10,167
Investments in real property and intangible assets	0	0
Sale / (purchase) of financial assets in other entities	0	3
Sale / (purchase) of financial assets from non-controlling shareholders	0	-4
Purchase of financial assets available for sale	0	-2,690
Cash payments to purchase debt instruments of other entities	-54,928	0
Loans advanced	-335	-20
Repayment of granted loans	74	0
Dividends received	0	0
Interest received	1,559	504
Settlement of financial instruments – expenses	0	0
Funds from acquisition of subsidiary	0	849
Sale of financial assets in associates	0	0
Other cash provided by/(used in) investing activities	0	0
NET CASH FROM INVESTING ACTIVITIES	-63,227	-6,370
CASH FLOWS FROM FINANCING ACTIVITIES		

Loans and bank credits received	6,943	131,586
Repayment of loans and bank credits	-200	-128,577
Decrease in finance lease liabilities	-7,659	-6,818
Interest paid	-636	-457
Other cash provided by / (used in) financing activities – dividends	-7,513	-7
Net cash from issue of shares	0	89
NET CASH FLOWS FROM FINANCING ACTIVITIES	-9,065	-4,185
TOTAL NET CASH FLOWS	-110,306	101,257
Net foreign exchange gains / (losses)	689	-329
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	172,334	71,405
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	62,717	172,334

Discussion of financial results

Discussion of major items of the statement of profit or loss

The Group's revenue for the financial year 2016 was PLN 343,017 thousand and fell by 37% when compared with the analogous period of 2015. Lower revenue reported by the Group 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. This had an impact on the Group's results. 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 in 2016 by both the Group and the Company:

	Group (PLN '000)	ZUE (PLN '000)
Gross profit (loss)	16,663	13,851
EBIT	154	743
EBITDA*	9,732	9,965
Pre-tax profit (loss)	1,291	2,328
Net profit (loss)	406	1,480

*Operating profit + depreciation / amortisation.

The Group's general and administrative expenses amounted in 2016 to PLN 20,212 thousand and decreased by 10% compared to 2015.

In 2016, the Group's other operating income stood at PLN 5,680 thousand (down by 21% when compared with 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 1,977 thousand and decreased year-on-year by 81%.

Financial income in the period 1 January – 31 December 2016 amounted to PLN 2,530 thousand and increased year-on-year by 106%. Financial expenses stood at PLN 1,393 thousand – a 4% decrease compared to 2015.

Discussion of major items of the statement of financial position

At the end of 2016, ZUE's total assets and liabilities stood at PLN 363,373 thousand and decreased year-on-year by 14%.

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 14,572 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 109,617 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 2,316 thousand as a result of decrease in lease payments;
- Decrease in trade and other payables by PLN 35,636 thousand as a result of decrease in provision for the costs of subcontractors and decrease in valuation of contracts;
- Decrease in short-term provisions by PLN 8,791 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 3,750 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 period decreased by PLN 109,617 thousand.

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 10,196 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).

Results reported by segments

Construction activities conducted by ZUE in 2016 produced a net profit of PLN 1,480 thousand (accompanied by a gross profit of PLN 13,851 thousand). Sales activities conducted by Railway gft in 2016 saw a net loss of PLN 1,309 thousand (accompanied by a gross profit of PLN 1,520 thousand). Like the construction activities conducted by ZUE, the sales segment was influenced by the downturn in the Polish rail and urban infrastructure market. Design activities are conducted at the Group by BPK Poznań. In 2016, the segment reported a gross profit of PLN 1,458 thousand and a net profit of PLN 93 thousand.

Notes to the consolidated financial statements prepared as at 31 December 2016

1. General information

1.1. Composition of the Capital Group

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

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

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

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

Composition of the Parent Company's governing and supervisory bodies at the date of the financial statements' approval:

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

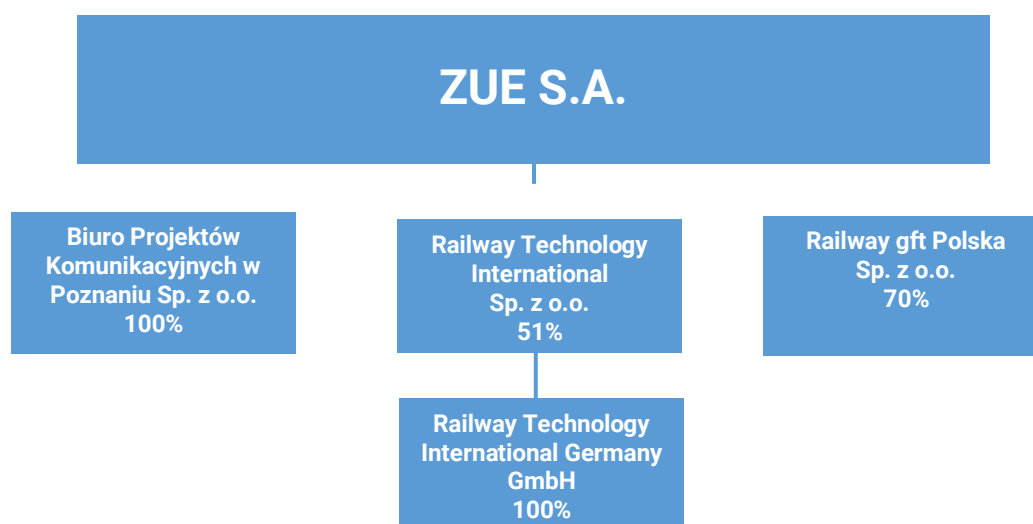
Supervisory Board:

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).

Structure of the Group at the date of the report approval:



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.

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

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

1.2. Activities of the Capital Group

The Group identifies the three aggregate operating segments:

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

Construction activities include:

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

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

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

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

1.3. Functional and reporting currency

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

1.4. Consolidated entities

Consolidated entities at 31 December 2016:

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

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

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

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

RTI

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

1.6. Shareholders of the Parent Company

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

Shareholder	Number of shares held at 13.03.2017	% of the share capital at 13.03.2017	Number of votes at the GM at 13.03.2017	% of votes at the GM at 13.03.2017	Number of votes at the GM at the publication of last quarterly report*	% of the share capital at the publication of last quarterly report*	% of votes at the GM at the publication of last quarterly report*
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53	14,400,320	62.53	62.53
METLIFE OFE**	1,400,000***	6.08***	1,400,000***	6.08***	1,400,000	6.08	6.08
PKO Bankowy OFE	1,500,000****	6.51****	1,500,000****	6.51****	1,500,000	6.51	6.51
Other	5,729,763*****	24.88	5,729,763	24.88	5,729,763	24.88	24.88
Total	23,030,083	100	23,030,083	100	23,030,083	100	100

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

** Previously Amplico OFE.

*** Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of ZUE held on 8 December 2014 provided in the current report 41/2014 of 8 December 2014.

**** Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of ZUE held on 18 June 2014 provided in the current report 31/2014 of 18 June 2014.

***** Including 264,652 ZUE shares repurchased by the Company as part of the buy-back of own shares.

2. Use of International Financial Reporting Standards

2.1. Statement of compliance

The consolidated financial statements of the ZUE Capital Group 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 Group'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 Group did not apply the following standards or amendments to the standards, which had been published and approved of by the EU but had not yet come into force:

- **IFRS 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 Group is being analysed.

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

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

3. Applied accounting principles

3.1. Going concern

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

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 consolidated 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 principles used by the Group are presented below.

3.4. Consolidation rules

Investments in subsidiaries

Subsidiaries are entities controlled by the parent (this includes SPVs). The control is exercised if the parent has the power to govern financial and operating policies of subsidiaries so as to obtain benefit from their activities.

The results of subsidiaries acquired or sold during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests are identified separately from the Group's equity. Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquired net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequently, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in the Group's equity.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of assets (including goodwill), liabilities and non-controlling interests. Amounts recognized in other comprehensive income in relation to disposed subsidiary are reclassified to profit or loss. The fair value of any investment retained in the former subsidiary is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Investments in associates

An associate is an entity over which the parent has a significant influence, but which is not a subsidiary or an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of an associate without control or joint control.

The results, assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting, except when the investment is classified as held for sale in which case it is accounted for in accordance with IFRS 5 – Noncurrent Assets Held for Sale and Discontinued Operations. Under the equity method of accounting, investments in associates are carried in the consolidated statement of financial position at historical cost as adjusted by post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value of individual investments. Losses of the associates in excess of the Group's interest in those associates (including any long-term shares which in fact are a part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where the Group transacts with an associate, profits and losses are eliminated to the extent of the Group's interest in the associate.

Loss of control

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit and loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Transactions with minority shareholders not resulting in change of control

Transactions with minority shareholders that do not result in a change of control are accounted for as equity transactions.

Goodwill

Goodwill arising on acquisition represents the excess of the aggregate of transferred consideration, non-controlling interests and the fair value of interests previously held in the acquired unit over the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired unit at the date of acquisition.

If negative goodwill arises, the fair values of acquired net assets are reassessed by the Group. If negative goodwill still arises, then it should be recognised immediately in profit or loss.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is not subsequently reversed.

On disposal of a subsidiary or a jointly controlled unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.5. Segment reporting

The Group's reporting is based on operating segments.

The Management Board of ZUE identified the three aggregate operating segments to enable a proper assessment of the type and financial consequences of the Group's operations as required by the IFRS 8:

- construction;
- design; and
- sales.

The Group is organised and managed within the abovementioned segments. The Group applies a uniform accounting policy for all operating areas within the segments.

3.6. 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).

3.7.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.

3.8.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 3.6, 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 Group's operating activities.

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

3.9.Government grants

Government grants are not recognised until there is reasonable assurance that the Group 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.

3.10. 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 according to the company's regulations.

Costs of social insurance financed by the employer include pension, social security and accident benefits and contributions to the Guaranteed Employee Benefits Fund and the Labour Fund. Costs of pension benefits include retirement and pension gratuities paid to employees according to the employment law.

The Group pays retirement gratuities according to the employment code and makes a provision for these benefits. The payments 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 according to the employment code.

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

Other employee benefits are paid under the law and the corporate regulations. The Group 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.

3.11. 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 Group'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.

3.12. 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:

Item	Useful lives
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.

3.13. Investment property

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 are initially measured at cost, including transaction costs. After initial recognition, investment properties are carried at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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.

3.14. Intangible assets

Intangible assets are the Group'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 Group 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.

3.15. Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group 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 Group 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 Group 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.

3.16. Long-term financial assets, including investments in related entities

Long-term financial assets, including investments in subsidiaries, fellow subsidiaries and associates, 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.

3.17. 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 Group 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 Group's accounting policy on borrowing costs as set out in note 3.8.

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.

3.18. 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.

3.19. 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.

3.20. 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 Group 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 Group'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 Group 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 Group'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 Group 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 Group but control is retained, the retained share in the asset and the related payment obligation is recognised. If the Group retains substantially all the risks and rewards of a transferred financial asset, the Group continues to recognise the transferred financial asset.

3.21. Financial liabilities and equity instruments issued by the Group

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 Group 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 Group'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 Group only when it is discharged, cancelled or expires.

3.22. Provisions

Provisions are recognised when the Group 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.

3.23. 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.

3.24. 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 3.12 and 3.14, the Company verifies useful economic lives of property, plant and equipment 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

Employees 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 provisions for litigations and potential risks relating to them.

4.5. Provisions for warranty claims

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 Group's revenue:

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Revenue from the sale of goods and raw materials	50,654	60,806
Revenue from the rendering of services	5,854	10,758
Revenue from construction contracts	286,509	470,558
Total	343,017	542,122

The revenue reported by the Group in 2016 was generated exclusively on the domestic market. The revenue generated in 2015 included international sales of PLN 48,402 thousand.

The Group carries out its projects both home and abroad. The biggest portion of sales is contributed by revenue from construction contracts. Sales volume depends on tenders announced on urban and railway infrastructure construction market.

5.2. Operating segments

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

- construction;
- design; and
- sales.

These operating segments jointly meet the following rules:

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

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

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

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

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

Operating segments' results:

(PLN '000)

	Construction	Sales	Design	Exclusions	Total
Revenue	311,086	98,017	10,204	-76,290	343,017
including:					
Revenue from external customers	310,265	23,130	9,341	281	343,017
Inter-segment revenues	821	74,887	863	-76,571	0
Gross profit	13,851	1,520	1,458	-167	16,663
Financial income / expenses	1,585	-424	-23	0	1,137
Interest received	1,557	0	2	0	1,559
Interest paid	-440	-184	-12	0	-636
Pre-tax profit	2,328	-1,252	39	177	1,291
Corporate income tax	848	57	-53	34	885
Net profit	1,480	-1,309	93	143	406
Depreciation and amortisation	9,222	156	115	85	9,578

Property, plant and equipment	80,335	2	111	2,967	83,416
Non-current assets	143,469	314	1,151	-1,016	143,917
Total assets	344,332	34,466	8,064	-23,489	363,373

5.3. Operating expenses

	(PLN '000)	
	Year ended	Year ended
	31-12-2016	31-12-2015
Change in products	758	-761
Cost of products manufactured for own use	0	0
Depreciation and amortization	9,578	9,263
Consumption of raw and other materials	83,217	133,062
Contracted services	136,016	228,674
Cost of employee benefits	64,034	83,050
Taxes and charges	1,733	1,932
Other expenses	7,219	10,556
Value of goods and materials sold	44,011	50,901
Total	346,566	516,677

Depreciation and amortisation

	(PLN '000)	
	Year ended	Year ended
	31-12-2016	31-12-2015
Depreciation of property, plant and equipment	8,530	8,139
Amortisation of intangible assets	703	768
Depreciation of investment in real property	345	356
Total	9,578	9,263

5.4. Other operating income

	(PLN '000)	
	Year ended	Year ended
	31-12-2016	31-12-2015
Gain on disposal of assets:	87	1,562
Gain on disposal of non-current assets	87	1,562
Other operating income:	5,593	5,650
Bond and policy re-invoicing	255	276
Received damages	628	3,537
Release of write-downs of receivables	1,966	478
Refund of costs of court proceedings	40	39
Release of provisions for court cases	1,567	0
Release of allowances for inventories	353	0
Other	784	1,320
Total	5,680	7,212

Other operating income includes the revenues and gains indirectly related to the Group'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 Group'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.

5.5. Other operating expenses

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Loss on disposal of assets	4	23
Loss on disposal of non-current assets	4	23
Other operating expenses:	1,973	10,148
Donations	63	17
Paid damages	158	522
Costs of litigations	349	430
Costs of performance bonds	255	16
Revaluation of inventories	47	643
Creation of write-downs of receivables	696	1,702
Remission of debt	3	278
Allowance for investment property	0	3,500
Allowance for property, plant and equipment and intangible assets	0	1,329
Allowance for goodwill	0	1,474
Other	402	237
Total	1,977	10,171

Other operating expenses include the expenses and losses indirectly related to the Group'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.

5.6. Financial income

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Interest income:	1,501	750
Interest on bank deposits	1,440	521
Interest on loans	3	3
Interest on receivables	58	226
Foreign exchange gains	785	69
Gain on disposal of investments	0	0
Dividend income	0	0
Other financial income	244	411
Discount of long-term provisions	98	3
Discount of long-term payables	67	384
Discount of long-term receivables	4	19
Discount of long-term items	0	0
Realisation of financial instruments	0	0
Other	75	5
Total	2,530	1,230

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 Group from 3% to 3.5%.

5.7. Financial expenses

(PLN '000)

	Year ended 31-12-2016	Year ended 31-12-2015
Interest expenses	660	655
Interest on bank overdrafts and credits	190	139
Interest on finance lease liabilities	449	313
Interest on loan	7	23
Interest on trade and other payables	14	180
Other financial expenses	733	689
Foreign exchange losses	36	87
Discount of long-term receivables	0	3
Discount of long-term items	494	575
Realisation of financial instruments	0	0
Allowance for investments in subordinates	118	0
Other	85	24
Total	1,393	1,344

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 Group from 3% to 3.5%.

Following a test for the impairment of investments in subordinates, the impairment loss of PLN 118 thousand was recognised by the Group in 2016 (RTI).

5.8. 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	1,101	7,468
Deferred tax	-216	-2,484
Total tax expense/income	885	4,984

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 Group'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 Group is subject to general regulations governing corporate income tax. The Group's entities neither form a tax capital group nor operate 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)	1,291	22,454
Difference between gross profit (loss) and income tax base:	-44,625	16,717
- 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	-44,625	26,684
- other differences (including loss brought forward)	0	-9,967
Profit/loss	-43,334	39,171
Income tax base	0	39,171
Income tax at the applicable rate of 19%	0	7,442
Income tax on profit earned abroad	978	120
Tax increases, waivers, exemptions, deductions and reductions	0	0
Adjustment of income tax from previous years	123	-94
Current income tax	1,101	7,468

Current tax assets and liabilities

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Current tax assets		
Tax refundable	64	4,030
Total	64	4,030

Current tax liabilities

Tax payable	0	66
Total	0	66

Deferred tax balance

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Deferred tax balance at the beginning of the year	8,477	5,919
Merger opening balance	0	71
Temporary differences relating to deferred tax assets:	15,037	22,312
Provisions for expenses and accruals	9,059	14,058
Discount of receivables	279	292
Measurement of financial instruments	0	0
Liabilities under leases	323	478
Interest charged	0	12
Tax loss	0	0
Other, including allowances for receivables	2,644	4,668
Other – measurement of settlements	0	1
Tax work in progress	2,732	2,618
Deferred tax reclassified from equity	0	185
Temporary differences relating to deferred tax liabilities:	14,224	13,835
Measurement of long-term contracts	4,222	3,318
Deferred revenue	0	0
Property, plant and equipment and intangible assets	9,278	9,660
Discount of payables	398	376
Interest charged	0	0
Other	326	481
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:	22,907	22,312
Total temporary differences relating to deferred tax liabilities:	14,224	13,835
Deferred tax balance at the end of the year	8,683	8,477
Change in deferred tax, including:	206	2,487
- recognised in income	216	2,484
- 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.

5.9. Profit per share

	(PLN)	
	Year ended 31-12-2016	Year ended 31-12-2015
Basic profit (loss) per share	0.04	0.75
Total basic profit (loss) per share	0.04	0.75
Diluted profit (loss) per share	0.04	0.75
Total diluted profit (loss) per share	0.04	0.75

Basic profit per share

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

	(PLN)	
	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	0.04	0.75
Total profit (loss) used in the calculation of basic profit per share	808,734.09	17,206,210.29
Weighted average number of ordinary shares used in the calculation of profit (loss) per share	23,030,083	23,030,083

Basic profit per share is calculated by dividing the net profit for the period under analysis by the weighted average number of shares for the period under analysis.

Diluted profit per share

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

5.10. Property, plant and equipment

(PLN '000)

Property, plant and equipment		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	1 January 2016	0	26,051	37,733	46,234	2,204	112,222	10,197	0	122,419
Additions – merger of companies		0	0	0	0	0	0	0	0	0
Additions		0	73	10,603	6,916	1	17,593	1,184	2,967	21,744
Impairment		0	0	0	0	0	0	0	0	0
Transfer to non-current assets		0	0	0	0	2,869	0	10,863	0	10,863
Liquidations		0	0	816	1,999	54	2,869	0	0	
Balance at	31 December 2016	0	26,124	47,520	51,151	2,151	126,946	518	2,967	130,431

		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at	1 January 2016	0	5,816	16,660	16,719	1,605	40,800	0	0	40,800
Additions – merger of companies		0	0	0	0	0	0	0	0	0
Elimination on disposal of assets		0	0	777	1,485	53	2,315	0	0	2,315
Depreciation expense		0	1,001	3,243	4,109	177	8,530	0	0	8,530
Balance at	31 December 2016	0	6,817	19,126	19,343	1,729	47,015	0	0	47,015

Carrying amount

Balance at	1 January 2016	0	20,235	21,073	29,515	599	71,422	10,197	0	81,619
Balance at	31 December 2016	0	19,307	28,394	31,808	422	79,931	518	2,967	83,416

Total property, plant and equipment of the Group as at 31 December 2016 amounted to PLN 83,416 thousand (PLN 81,619 thousand in 2015). Impairment losses were recognised by the Group in the reporting period.

As at 31 December 2016, the value of liabilities incurred to purchase property, plant and equipment was PLN 355 thousand. As at 31 December 2016, the gross carrying amount of fully depreciated property, plant and equipment still used by the Group was PLN 9,188 thousand.

Assets pledged as security

Note 5.25 deals with the real estate encumbered to secure the agreements with banks. The Group's obligations under finance lease (note 5.31) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

5.11. Investment property

(PLN '000)

Gross value		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	1 January 2016	126	4,251	2,371	0	0	0	6,748
Additions		0	0	0	0	0	0	0
Adjustment		0	0	0	0	0	0	0
Impairment		0	0	0	0	0	0	0
Liquidations		0	0	0	0	0	0	0
Balance at	31 December 2016	126	4,251	2,371	0	0	0	6,748

		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	1 January 2016	0	1,159	1,527	0	0	0	2,686
Elimination on disposal of assets		0	0	0	0	0	0	0
Depreciation expense		0	165	180	0	0	0	345
Balance at	31 December 2016	0	1,324	1,707	0	0	0	3,031

Carrying amount

Balance at	1 January 2016	126	3,092	844	0	0	0	4,062
Balance at	31 December 2016	126	2,927	664	0	0	0	3,717

As at 31 December 2016, investment property includes the real property in Kościelisko (plots no. 2001 and 2491). The investment property includes land with buildings erected thereon and leasehold estate.

No impairment losses were recognised by the Group 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 0 (PLN 0 in 2015). Operating expenses relating to the investment property amounted to PLN 594 thousand (PLN 617 thousand in 2015).

5.12. Non-current assets held for sale

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

5.13. 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:	960	1,412
- Software	960	1,412
Other intangible assets, including:	8,635	8,766
- Leasehold	8,635	8,766
Total	9,595	10,178

Movements in intangible assets:

(PLN '000)

	Leasehold	Other intangible assets – software	Total
Gross value			
Balance at 1 January 2016	9,341	4,380	13,721
Additions – merger of companies	0	0	0
Additions	0	120	120
Impairment	0	0	0
Disposals or classification as held for sale	0	1	1
Balance at 31 December 2016	9,341	4,499	13,840
Amortisation and impairment			
Balance at 1 January 2016	575	2,968	3,543
Additions – merger of companies	0	0	0
Amortisation expense	131	572	703
Adjustment	0	0	0
Disposals or classification as held for sale	0	1	1
Balance at 31 December 2016	706	3,539	4,245
Carrying amount			
Balance at 1 January 2016	8,766	1,412	10,178
Balance at 31 December 2016	8,635	960	9,595

No impairment losses were recognised by the Group in 2016 (in 2015 – impairment loss of PLN 265 thousand).

5.14. Goodwill

The goodwill of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A is a result of the acquisition of 85% of PRK shares and the control gained in 2010. The acquisition of PRK was settled on the basis of the data contained in the separate financial statements of PRK as at 31 December 2009 and was recognised for the first time in the Financial Statements of the Capital Group in 2010.

The goodwill of BPK Poznań is a result of the purchase of 830 shares in BPK Poznań and the control gained on 2012.

The acquisition of BPK Poznań was settled on the basis of the data contained in the separate financial statements of BPK Poznań as at 31 March 2012 and was recognised for the first time in the Financial Statements of the Capital Group in 2012.

(PLN '000)

At cost	As at	As at
	31-12-2016	31-12-2015
Goodwill of PRK	31,172	31,172
Goodwill of BPK Poznań	1,474	1,474
Impairment losses (BPK Poznań)	-1,474	-1,474
Balance at the end of the reporting period	31,172	31,172

Annual goodwill impairment test

The Management Board of ZUE carried out a test for the impairment of goodwill. The test revealed that at the end of the reporting period, there was no need to recognise any impairment loss arising on the acquisition of PRK.

The test was carried out using the FCFF 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%.

5.15. Investments in and advances to subordinates

Information on non-consolidated subsidiaries

At the end of the reporting period, ZUE holds 51% of shares in Railway Technology International Sp. z o.o. of Cracow. The subsidiary is not operating. RTI holds a 100% interest in Railway Technology International Germany GmbH of Hamburg, Germany, whose core business consists of winning and executing foreign projects. The operation of the companies is limited.

(PLN '000)

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 Technology International Sp. z o.o.	Holding activities	Cracow	51%	51%	117,835.50	28,585.50
Total investments in subordinates					117,835.50	28,585.50
Write-down of shares of RTI (cumulative)					117,835.50	0.00
Total investments in subordinates net of write-downs					0.00	28,585.50

Following a test for the impairment of investments in subordinates, the impairment loss of PLN 118 thousand was recognised by the Group in 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.

5.16. 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.

5.17. 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	1,378	1,234	0	0
Other receivables	0	0	0	0
Total	1,378	1,234	0	0

Short-term prepayments mainly include items such as property insurance and defects liability bonds.

5.18. 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.

5.19. Inventories

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Materials	10,330	24,076
Work in progress	759	1,581
Finished goods	198	202
Prepaid supply	0	0
Total	11,287	25,859

At the end of the reporting period, inventories amounted to PLN 11,287 thousand (PLN 25,859 thousand in 2015). The decrease followed the consumption of the inventories in order to perform construction contracts.

5.20. Trade and other receivables

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Trade receivables	70,476	72,225
Write-downs of trade receivables	-15,229	-14,282
Receivables from the state budget other than corporate income tax	6,332	714
Receivables under contracts (measurement)	22,211	15,921
Advance payments	2,563	3,005
Other receivables	256	256
Total trade and other receivables	86,609	77,839

Ageing analysis of trade receivables

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Not past due receivables	47,845	42,516
Receivables that are past due but not impaired	7,402	15,427
1-30 days	4,709	14,194
31-60 days	240	180
61-90 days	935	15
91-180 days	97	513
181-360 days	154	41
360 + days	1,267	484
Past due receivables on which write-downs were recognized	15,229	14,282
1-30 days	9	289
31-60 days	171	51
61-90 days	48	204
91-180 days	2,207	304
181-360 days	731	205
360 + days	12,063	13,229
Total trade receivables (gross)	70,476	72,225
Write-downs of trade receivables	-15,229	-14,282

Total trade receivables (net)	55,247	57,943
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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
	34,499

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

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated and by cooperation with financial institutions. Therefore, the Management Board of 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	0.00	0.00
Allowance for doubtful debts	0.00	0.00
Discount of long-term receivables	0.00	0.00
Total	0.00	0.00

Trade receivables

(PLN '000)

	Gross value of long-term receivables
Balance at the beginning of the year	0.00
Increases	0.00
Decreases	0.00
Transferred to short-term receivables	0.00
Discount	0.00
Balance at the end of the year	0.00

5.21. 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.

5.22. Share premium account

(PLN '000)

	As at 31-12-2016	As at 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.

5.23. 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.

5.24. Retained earnings

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Balance at the beginning of the year	119,050	101,856
Opening balance adjustment	0	0
Opening balance restatement	119,050	101,856
Net profit distribution	17,194	10,565
Reserve funds	17,194	10,565
Capital reserve	0	0
Coverage of loss brought forward	0	0
Distributable profit for the year	854	17,194
Payment of dividend for the preceding year	-7,513	0
Interim dividend for the current year	0	0
Change in non-controlling interests	0	0
Other	0	0
Capital reserve for the share buy-back	0	0
Equity changes resulting from merger	0	0
Balance at the end of the year	112,391	119,050

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 companies create a capital reserve according to the articles of association. The Company's profit to be distributed in subsequent periods or used to cover special losses or other expenses may be allocated to capital reserve. The Company's capital reserve meets the requirements of Art. 396 of the Act.

5.25. Loans and bank credits and other financing sources

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Long-term	8,892	11,208
Bank credits	0	0
Loans from:		
related entities	0	0
other entities	0	0
Finance lease liabilities	8,892	11,208
Short-term	14,194	11,841
Bank credits	8,153	5,000
Loans from:		
related entities	0	0
other entities	243	237
Finance lease liabilities	5,798	6,404
Settlement of commission on bank credit	0	0
Total loans and bank credits	23,086	23,049

Summary of credit agreements as at 31 December 2016

(PLN '000)

Bank	Description	Principal according to the agreement	Debt as at 31 Dec 2016	Interest	Repayment date	Security
mBank S.A. (i) (xii)	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.
mBank S.A. (ii) (iii) (iv) (v) (vi) (xiii)	Cooperation agreement (agreement no. 07/052/14/Z/PX) including:	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.
	submit for bonds	25,000	13,687			
	submit 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.
	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.

	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.
BNP Paribas S.A. (viii) (ix) (xv)	Multipurpose credit line (agreement no. WAR/2001/13/40/CB)	200	0	1M WIBOR + margin	2017-07-26	1. Blank bill of exchange. 2. Borrower's statement on submission to enforcement.
mBank (x) (xiv) (xvii)	Overdraft (agreement no. 07/113/13/Z/VV)	300	0	O/N WIBOR for interbank credits + margin	2017-06-09	1. Blank bill of exchange. 2. Guarantee by ZUE.
mBank (xvi)	Revolving credit for contract prefinancing (agreement no. 07/074/16/Z/OW)	2,000	953	1M WIBOR for interbank credits + margin	2018-05-15	1. Blank bill of exchange. 2. Assignment of receivables from PKP. 3. Guarantee by ZUE.
mBank (xi) (xix)	Revolving credit (agreement no. 07/067/15/Z/OB)	5,000	5,000	1M WIBOR + margin	2017-08-25	1. Guarantee by ZUE for PLN 5,000 thousand. 2. Registered pledge on inventories owned by Railway gft Polska Sp. z o.o. 3. Blank bill of exchange issued by Railway. 4. Statement on submission to enforcement. 5. Assignment of rights under insurance policy.
BNP Paribas S.A. (xviii)	Revolving credit (agreement no. WAR/2001/16/177/CB)	3,000	2,200	3M WIBOR for interbank credits + margin	First disbursement: by 2026-08-12 First disbursement: by 2017-08-10	1. Blank bill of exchange issued by Railway with declaration. 2. Blank bill of exchange issued by ZUE with declaration. 3. Statement by Railway on submission to enforcement. 4. Statement by ZUE on submission to enforcement.
Total credits			8,153			

Total bonds	49,586
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- (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) Amendment no. 1 to the Overdraft Agreement of 2 April 2013 whereby the name and purpose was changed to Multi-Purpose Credit Line Agreement; The Agreement was entered into between BNP Paribas and the two borrowers - BIUP and ZUE. ZUE signed the Agreement as the guarantor but the credit is used exclusively by BIUP.
- (ix) Amendment no. 2 whereby the repayment date was extended until 29 June 2016.
- (x) Agreement of 21 June 2013; the repayment date was extended under an annex until 9 June 2016.
- (xi) Agreement of 28 August 2015.
- (xii) Annex no. 14 of 11.05.2016 whereby the limit was reduced to PLN 5,000 thousand and financing was extended for another year.
- (xiii) Annex no. 6 of 29.06.2016 whereby the limit was reduced to PLN 40,000 thousand.
- (xiv) Annex no. 3 of 07.06.2016 whereby the repayment date was extended until 09.06.2017.
- (xv) Bank's approval of 29.06.2016 of advancing the credit for the period 29.06.2016 – 28.07.2016.
- (xvi) Agreement concluded on 16 September 2016.
- (xvii) Amendment no. 3 of 25.07.2016 whereby the repayment date was extended until 26.07.2017.
- (xviii) Agreement concluded on 12.08.2016.
- (xix) Annex no. 3 of 25.08.2016 whereby the repayment date was extended until 25.07.2017.



5.26. 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 31-12-2015
Financial liabilities to the State Treasury	280	280	630	910
Financial liabilities relating to treasury shares	0	0	0	0
Other liabilities	37	37	0	0
Total	317	317	630	910

The financial liabilities set out in the table above are the liabilities of BPK Poznań to the State Treasury under the Agreement for handing the enterprise over for paid use.

5.27. Provisions

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 table sets out the changes in provisions

(PLN '000)

Provisions	2016-01-01	Created	Used	Released	Reclassified	31-12-2016	Item
Long-term provisions:	8,903	1,316	423	494	-369	9,509	
Provisions for employee benefits	1,946	45	3	43	-81	1,864	Liabilities under employee benefits (long-term)
Provisions for warranty claims	6,957	1,271	420	451	-288	7,645	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	30,356	16,097	15,225	13,965	369	17,056	
Provisions for employee benefits	17,015	11,763	14,452	1,901	81	12,506	Liabilities under employee benefits (short-term)
Provisions for warranty claims	9,192	142	648	5,165	288	3,233	Short-term provisions
Provision for loss on contracts	1,418	4,085	125	5,332	0	46	Short-term provisions
Other provisions	2,731	107	0	1,567	0	1,271	Short-term provisions
Total provisions:	39,259	17,413	15,648	14,459	0	26,565	

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 salaries and social security premiums. The provisions for employee benefits decreased when compared with the previous year mainly as a result of smaller provisions for contract bonuses and the release of provisions in the reporting period.

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

Release of other provisions was mainly influenced by a release of the provision relating to 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 Group.

Selected items

	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Assets	79,078	78,101
including:		
- Valuation of contracts	22,211	15,921
- Advance payments for contracts	0	2,973
Liabilities	76,423	137,284
including:		
- Valuation of contracts	1,586	15,106
- Provisions for contract costs	21,330	53,423
Received advance payments for contracts	0	0
Revenue under construction contracts	286,509	470,558
Expenses under construction contracts	272,793	426,830
Gross profit (loss)	13,716	43,728

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	7,334	5,614
Retained by customers – to be repaid within 12 months	2,177	770
Total retentions on construction contracts retained by customers	9,511	6,384

Retained for suppliers – to be repaid after 12 months	6,792	8,012
Retained for suppliers – to be repaid within 12 months	9,185	11,715
Total retentions on construction contracts retained for suppliers	15,977	19,727

Retentions on construction contracts with payment dates above one year are discounted and recognized in the balance sheet at present value. The table below presents the results of discounting recognized in the balance sheet and profit or loss of the Company in individual periods. The amounts of discount reduce the nominal value of receivables from and liabilities under retentions on construction contracts. In 2016, discount rate was 3.5% and in 2015, it was 3%. In addition, a deferred tax is recognized in the balance sheet on the stated amounts calculated at the tax 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	591	461
Discount of long-term retentions on construction contracts retained for suppliers	955	888
Adjustment of financial income	10	-14
Adjustment of financial expenses	316	575
Deferred tax on above adjustments	58	112
Net effect on profit or loss	-248	-477

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:

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Past due retentions on construction contracts:		
– up to 1 month	1	554
– 1 - 3 months	14	34
– 3 - 6 months	0	0
– 6 months - 1 year	0	105
– over 1 year	327	203
Total past due retentions on construction contracts (gross)	342	896
Write-downs	-295	-298
Total past due retentions on construction contracts (net)	47	598

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	58,089	43,424
Liabilities to the state budget other than corporate income tax	1,082	5,705
Accruals	21,231	53,296
Liabilities under contracts (measurement)	1,586	15,106
Other payables	106	199
Total trade and other payables	82,094	117,730

Total trade and other payables as at 31 December 2016 amounted to PLN 82,094 thousand (PLN 117,730 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	53,498	34,708
Past due payables	4,591	8,716
1-30 days	4,251	7,313
31-60 days	58	843
61-90 days	9	37
91-180 days	1	99
181-360 days	89	334
360 + days	183	90
Total trade payables	58,089	43,424

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

	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	6,176	6,841	5,798	6,404
Later than one year and not later than five years	9,221	11,752	8,892	11,208
Later than five years	0	0	0	0
Less: future finance charges	-707	-981	0	0
Present value of minimum lease payments	14,690	17,612	14,690	17,612
Presented in the financial statements as:				
Short-term credits (note no. 5.25)			5,798	6,404
Long-term credits (note no. 5.25)			8,892	11,208

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 Group 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	As at
	31-12-2016	31-12-2015
Pension and retirement gratuities, including:	851	919
– present amount of obligation at the end of the reporting period	851	919
– 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	1,094	1,235
Other employee benefits	17,847	22,780
– provision for unused leaves	3,876	3,803
– provision for bonuses and overtime work	8,549	12,870
– salaries and wages	2,949	3,084
– social security and other benefits	2,473	3,023
Total obligations under retirement and other benefits	19,792	24,934
including:		
– long-term	1,864	1,946
– short-term	17,928	22,988

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

	As at 31-12-2016	As at 31-12-2015
Discount rate	3.41%	2.5%
Expected future rise in wages and salaries	2.5%	1.5%

(PLN '000)

Pension and retirement gratuities

	As at 31-12-2016	As at 31-12-2015
Present amount of obligation at the beginning of the year	1,044	1,033
Interest cost	24	21
Current service cost	71	69
Past service cost	119	0
Benefits paid	-204	-93
Actuarial (gains) / losses	-62	14
Present amount of obligation at the end of the year	992	1,044

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

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Current service cost	71	69
Interest cost	24	21
Actuarial (gains)/ losses recognised in the year	-62	14
Past service cost	116	0
Costs recognised in statement of comprehensive income	149	104
Amount recognised in profit or loss	211	90
Amount recognised in other comprehensive income (without deferred tax)	-62	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 Group reviews the capital structure each time for the purpose of major contract financing. As part of this review, the Group 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	23,086	23,049
Long- and short-term other financial liabilities	947	1,227
	24,033	24,276
Cash and cash equivalents	62,717	172,334
Other financial assets	54,935	0
	117,652	172,334
Net debt	-93,619	-148,058
Equity	209,282	216,344
Net debt to equity ratio	-44.73%	-68.44%

5.34. Financial risk management

The main financial instruments used by the Group 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 Group'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 Group 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	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	3	0	0
Gross effect on profit or loss of the period and net assets			855	-855
Deferred tax			-163	163
Total			692	-692

Interest rate risk

The Group 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.

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 Group'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	31 December 2016	
		+100 bp (PLN)	-100 bp (PLN)
Long-term retentions on construction contracts (discount):			
– recognised in assets (present value)	7,334	-344	369
– recognised in liabilities (present value)	6,792	-228	244
Cash at banks (nominal value / interest)	62,717	627	-627
Bank bonds	54,935	549	-549
Advanced loans (nominal value / interest)	289	3	-3
Bank credits and loans (nominal value / interest)	8,396	-84	84
Finance lease liabilities (present value / interest)	14,690	-147	147
Gross effect on profit or loss of the period and net assets		376	-335
Deferred tax		-71	64
Total		305	-271

Price risk

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

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

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

Credit risk

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

The Group'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 associated with contracts is assessed and verified by the Group both at the stage of tender submission and at the stage of project execution.

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

Liquidity risk

The Group reduces liquidity risk by maintaining sufficient cash and concluding credit line agreements which serve as an additional safeguard against the loss of liquidity. The Group 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 Group with a breakdown into particular classes and categories of assets and liabilities as 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	9,511	0	15,977
Trade and other receivables including: amounts receivable from customers under construction contracts – advance payments	0	0	86,609	0	0
Debt financial instruments - bonds	0	0	0	0	0
Derivative financial instruments and other financial liabilities	0	0	54,935	0	0
Advanced loans	0	0	0	0	947
Cash and cash equivalents	0	62,717	289	0	0
Loans and bank credits and other financing sources	0	0	0	0	0
Trade and other payables including: amounts payable to customers under construction contracts – advance payments	0	0	0	0	23,086
	0	0	0	0	82,094
Total	0	62,717	151,344	0	122,104

Reclassifications of financial assets

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

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

The amounts disclosed in the table below are the contractual undiscounted cash flows.

(PLN '000)

	As at 31-12-2016	As at 31-12-2015
Age structure		
– less than 1 year	105,607	142,501
– 1 - 3 years	13,768	13,226
– 3 - 5 years	1,250	4,941
– 5 years +	1,479	1,064
Total	122,104	161,732

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 Group 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
RTI	0	1	0	0
RTI Germany	0	0	0	19
Wiesław Nowak	0	0	0	0
Total	0	1	0	19

	Revenue		Purchases	
	Year ended		Year ended	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
RTI	3	12	0	0
RTI Germany	0	0	113	946
Wiesław Nowak	0	0	0	0
Total	3	12	113	946

	Advanced loans		Financial income (interest)	
	As at		Year ended	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
RTI	0	158	0	3
RTI Germany	58	0	0	0
Wiesław Nowak	0	0	0	0
Total	58	158	0	3

	Received loans		Financial expenses (interest)	
	As at		Year ended	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
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 2016, RTI leased business establishments from ZUE on the basis of the lease signed on 31 December 2015.

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 15,7m. 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 the date of preparation of this report, the Group is a party to the pending court proceedings concerning the Group's claims and liabilities of the total value of PLN 50,647,121.50; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 882,952.77 and the total value of the proceedings concerning claims is PLN 49,764,168.73.

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

The biggest court proceeding concerning liabilities concluded in 2016:

Case concerning the following project: "Construction of the Franowo tram depot in Poznań" – amicable settlement of dispute.

On 17 October 2014, the Company received a lawsuit from Elektrobudowa S.A. for PLN 1,712,208.37 plus interest from 26 July 2014 until the date of payment and the refund of the costs of court proceedings. Elektrobudowa S.A. maintained that the Company had groundlessly drawn on the bond provided to it by the petitioner – the consortium partner. Both the Company and Elektrobudowa S.A. were involved in completion of the project named "Construction of the Franowo tram depot in Poznań" (the "Contract"). On 1 December 2016, an out-of-court settlement was reached between the Company and Elektrobudowa S.A. whereby any and all disputes relating to the Contract were resolved finally and amicably. The Company informed about the settlement in the current report 58/2016.

The biggest pending court proceeding concerning claims:

Cases concerning the following project: "Modernisation of the railway line no. 8, construction of the Okęcie airport siding."

On 14 August 2014, the Petitioner (BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) filed a lawsuit against the Defendant (PKP Polskie Linie Kolejowe S.A.). The Petitioner sued the Defendant for the contractual penalty of PLN 72,835,010.99 plus interest from 18 August 2012 until payment (with PLN 18,521,943.30 plus interest from 18 August 2012 until payment attributable to the Company) for the Defendant's delay in the handover of the Construction Site. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Phase 3: construction work on the siding as part of the project no. POIŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding." Under the Contract, the Contracting Authority was obliged to provide the Contractor with an access to the entire construction site and the right to use it on the dates as specified in an appendix to the Contract. In case of delay through the fault of the Contracting Authority, the Contractor was authorised to charge the contractual penalties for each day of delay at the rate as specified in an appendix to the Contract. The Contracting Authority failed to provide an access to all parts of the Construction Site by the dates specified in the Contract. The Defendant questioned the claims made by the Petitioner both in terms of their amount and legitimacy. In addition, the Defendant filed a motion to dismiss the action and award the Defendant costs of the proceedings, including the cost of legal representation, according to the list of costs submitted during the proceedings. The Defendant filed a claim that the contractual fee charged by the Petitioners was too high in case the said motion for the dismissal was rejected.

The case concerns ZUE's claims whose value is PLN 18,521,943.30 plus interest and, consequently, exceeds 10% of the Company's equity.

In addition, on 29 September 2016, the Petitioner (PORR Polska Infrastruktura; i.e. former BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) sued the Defendant (PKP Polskie Linie Kolejowe S.A.) for PLN 11,506,921.00 (out of which PLN 2,926,209.77 plus statutory interest was payable to ZUE) after additional works had been carried out and expenses had been incurred during the extended completion time. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the

Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POLiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

Cases concerning the following project: "Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III."

On 30 December 2016, the consortium of:

- 1) OHL ŽS, a.s. (Leader);
- 2) Swietelsky Baugesellschaft m.b.H;
- 3) ZUE S.A. (hereinafter referred to as the "Consortium" or the "Contractor")

sued PKP Polskie Linie Kolejowe S.A. of Warsaw (the "Contracting Authority"). The lawsuit covered the claims relating to the performance of the following contract: "Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III" (the "Contract").

The litigation value (the "Amount") is PLN 39.3m and includes:

- 1) PLN 1.2m – costs relating to the requirement to extend the performance bond and insurance provided by the Contractor; and
- 2) PLN 38.1m – fixed costs relating to the performance of works over the extended period.

The Company's total share in the Amount is approx. PLN 15.7m.

Case concerning the following project: "Design and construction works as part of the following project: "Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie - Dąbrowa Górnicza Żabkowice - Jaworzno Szczakowa section."

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

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

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

The Petitioner could not agree with the Defendant because a risk of incorrect description of an order was borne by the Defendant and the correction of an obvious mistake could not change the order understood as the Defendant's statement of will. The decision to impose on the Petitioner the obligation to perform any works goes beyond the risk included in the lump-sum remuneration. Therefore, the Petitioner demands the payment for the additional works commissioned by the Contract Engineer. In response, the Defendant filed a motion to dismiss the suit and questioned the Petitioner's obligation to carry out the tasks exclusively at 0.750 km. In addition, the Defendant stated there was no incorrect description of the order. According to the Defendant, each professional contractor acting with due care and diligence would be able to discover an obvious mistake of the Contracting Authority and take it into account while calculating the price.

5.38. Remuneration of key management personnel

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

(PLN '000)

	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	01.2015-12.2015	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 Group 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. 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	54,217	87,334
Bank deposits up to three months	8,500	85,000
TOTAL	62,717	172,334

The Group's cash and cash equivalents at the end of the year decreased by PLN 109,617 thousand.

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).

5.40. 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 14,134 thousand under a finance lease.

5.41. Operating lease arrangements

Group 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

5.42. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Bonds	28,080	26,509
Bills of exchange	4,120	3,962
Guarantees	58	0
Mortgages	0	0
Total	32,258	30,471

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

Contingent liabilities

	(PLN '000)	
	As at 31-12-2016	As at 31-12-2015
Bonds	203,078	176,915
Guarantees	15,709	12,206
Bills of exchange	128,319	149,587
Mortgages	201,018	51,018
Pledges	4,000	19,206
Total	552,124	408,932

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

As at 31 December 2016, the registered pledge of PLN 4m is a security for the Agreement no. 07/067/15/Z/OB of 28 August 2015 between Railway gft Polska and mBank S.A. According to the Annex no. 1 to the pledge agreement of 25.08.2016, an application was filed to reduce the amount from PLN 5.5m to PLN 4m. The change was made on 21.10.2016.

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 (*PoliŚ*) 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 ŹS, 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 – Źory – 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 (*PoliŚ*) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II. The Company informed about the submission of the lowest price tender in the said tender procedure in the current report 61/2016. Net value of the tender submitted by the consortium: PLN 216.7m. The expected remuneration attributable to the Company: 33% of the net value. Gross value of the tender: PLN 266.5m. The project completion date: 43 months of the contract conclusion date. **(Current report 5/2017)**

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

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

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

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

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

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

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

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

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

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

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

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

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 consolidated financial statements of the Group 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 Group and its financial performance. The Report on Activities of ZUE Capital Group for the year 2016 contains a true view of the Group's development and achievements, including the description of fundamental risks and threads.

Wiesław Nowak	Management Board President
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Anna Mroczek	Management Board Vice-President
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Jerzy Czeremuga	Management Board Vice-President
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Maciej Nowak	Management Board Vice-President
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Marcin Wiśniewski	Management Board Vice-President
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Cracow, 13 March 2017

These consolidated financial statements of the Capital Group cover the period from 1 January to 31 December 2016. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

The financial statements have been prepared by:

Ewa Bosak	Chief Accountant
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Signatures of the managing personnel:

Wiesław Nowak	Management Board President
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Anna Mroczek	Management Board Vice-President
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Jerzy Czeremuga	Management Board Vice-President
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Maciej Nowak	Management Board Vice-President
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Marcin Wiśniewski	Management Board Vice-President
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Cracow, 13 March 2017