



**ZUE Capital Group**

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**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**Cracow, 16 March 2018**

## CONTENTS

Selected financial data of the Group .....	5
Consolidated statement of comprehensive income .....	7
Consolidated statement of financial position .....	8
Consolidated statement of changes in equity .....	10
Consolidated statement of cash flows .....	11
Notes to the consolidated financial statements prepared as at 31 December 2017 .....	12
<b>1. General information .....</b>	<b>12</b>
1.1. Governing bodies of the Parent Company .....	12
1.2. Shareholders of the Parent Company .....	13
1.3. Composition of the Capital Group .....	13
1.4. Consolidated companies .....	14
1.5. Changes in the Group's structure and their consequences .....	15
1.6. Activities of the Capital Group .....	15
1.7. Functional and reporting currency .....	15
<b>2. Notes to the statement of comprehensive income .....</b>	<b>15</b>
2.1. Revenue .....	15
2.2. Operating expenses .....	16
2.3. Other operating income .....	17
2.4. Other operating expenses .....	17
2.5. Financial income .....	17
2.6. Financial expenses .....	18
2.7. Corporate income tax .....	18
2.8. Operating segments .....	20
<b>3. Contracts, retentions and provisions .....</b>	<b>22</b>
3.1. Construction contracts .....	22
3.2. Retentions on construction contracts .....	22
<b>Discount recognised in profit or loss .....</b>	<b>23</b>
3.3. Provisions .....	23
<b>4. Trade and other receivables and payables .....</b>	<b>24</b>
4.1. Trade and other receivables .....	24
4.2. Trade and other payables .....	25
<b>5. Equity .....</b>	<b>26</b>
5.1. Share capital .....	26
5.2. Profit (loss) per share .....	26
5.3. Share premium account .....	27
5.4. Treasury shares .....	27
5.5. Retained earnings .....	27
<b>6. Debt and management of capital and liquidity .....</b>	<b>28</b>
6.1. Loans and bank credits and other financing sources .....	28
6.2. Capital management .....	31
6.3. Non-cash transactions and financing sources .....	32
6.4. Financial risk management .....	32
6.5. Cash and cash equivalents .....	34
<b>7. Other notes to the financial statements .....</b>	<b>35</b>
7.1. Property, plant and equipment .....	35
7.2. Investment property .....	37
7.3. Non-current assets held for sale .....	39
7.4. Intangible assets .....	39
7.5. Goodwill .....	39
7.6. Investments in subordinates .....	40
7.7. Other financial assets .....	40
7.8. Other assets .....	41
7.9. Advanced loans .....	41
7.10. Inventories .....	41
7.11. Other financial liabilities .....	41
7.12. Obligations under retirement and other benefits .....	42
7.13. Financial instruments .....	43
7.14. Transactions with related entities .....	45
7.15. Proceedings before court, arbitration or public administration authority at the date of preparation of this report .....	46
7.16. Compensation of key management personnel .....	47
7.17. Operating lease arrangements .....	47
7.18. Contingent assets and contingent liabilities .....	49

<b>8. Other notes to the financial statements .....</b>	<b>50</b>
8.1. Use of International Financial Reporting Standards.....	50
8.2. Important accounting principles.....	53
8.3. Key sources of estimation uncertainty.....	63
<b>9. Events after the end of the reporting period .....</b>	<b>64</b>
<b>10. Approval of the financial statements.....</b>	<b>64</b>
STATEMENT OF THE MANAGEMENT BOARD OF ZUE ON THE COMPLIANCE OF ANNUAL FINANCIAL STATEMENTS WITH APPLICABLE ACCOUNTING PRINCIPLES .....	65
Signatures of the management personnel: .....	66

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 Görlitz, Germany, entered into the German Register of Entrepreneurs ( <i>Handelsregister B, HRB</i> ) maintained by the District Court in Dresden ( <i>Amtsgericht Dresden</i> ) under entry number HRB 36690. 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 2017, item 1577).

Share capital details as at 31 December 2017.

## Selected financial data of the Group

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

	Balance at 31-12-2017		Balance at 31-12-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	158,593	38,024	143,917	32,531
Current assets	343,659	82,394	219,456	49,606
<b>Total assets</b>	<b>502,252</b>	<b>120,418</b>	<b>363,373</b>	<b>82,137</b>
Equity	209,419	50,210	209,282	47,306
Non-current liabilities	25,472	6,107	25,823	5,837
Current liabilities	267,361	64,101	128,268	28,994
<b>Total equity and liabilities</b>	<b>502,252</b>	<b>120,418</b>	<b>363,373</b>	<b>82,137</b>

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

	Year ended 31-12-2017		Year ended 31-12-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	465,316	109,624	343,017	78,391
Cost of sales	446,224	105,126	326,354	74,583
<b>Gross profit (loss) on sales</b>	<b>19,092</b>	<b>4,498</b>	<b>16,663</b>	<b>3,808</b>
Operating profit (loss)	1,641	387	154	35
Gross profit (loss)	895	211	1,291	295
<b>Net profit (loss) from continuing operations</b>	<b>233</b>	<b>55</b>	<b>406</b>	<b>93</b>
Total comprehensive income	137	32	451	103

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

	Year ended 31-12-2017		Year ended 31-12-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	18,863	4,444	-38,014	-8,688
Cash flows from investing activities	34,717	8,179	-63,227	-14,450
Cash flows from financing activities	1,848	435	-9,065	-2,071
<b>Total net cash flows</b>	<b>55,428</b>	<b>13,058</b>	<b>-110,306</b>	<b>-25,209</b>
Cash at the beginning of the year	62,717	14,177	172,334	40,440
Cash at the end of the year	117,748	28,231	62,717	14,177

### Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on	Exchange rate on	Exchange rate on
		31-12-2017	31-12-2016	31-12-2015
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.1709	4.4240	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	4.2447	4.3757	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	4.1709	4.4240	4.2615

## Consolidated statement of comprehensive income

Continuing operations	Note no.	Year ended 31-12-2017	Year ended 31-12-2016
Revenue	2.1	465,316	343,017
Cost of sales	2.2	446,224	326,354
<b>Gross profit (loss)</b>		<b>19,092</b>	<b>16,663</b>
General and administrative expenses	2.2	19,753	20,212
Other operating income	2.3	5,909	5,680
Other operating expenses	2.4	3,607	1,977
<b>Operating profit (loss)</b>		<b>1,641</b>	<b>154</b>
Financial income	2.5	1,933	2,530
Financial expenses	2.6	2,679	1,393
<b>Pre-tax profit (loss)</b>		<b>895</b>	<b>1,291</b>
Corporate income tax	2.7	662	885
<b>Net profit (loss) from continuing operations</b>		<b>233</b>	<b>406</b>
<b>Net profit (loss)</b>		<b>233</b>	<b>406</b>
<b>Other net comprehensive income</b>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>		<b>-96</b>	<b>45</b>
Actuarial gains (losses) relating to specific benefit schemes	7.12	-96	45
<b>Other total net comprehensive income</b>		<b>-96</b>	<b>45</b>
<b>Total comprehensive income</b>		<b>137</b>	<b>451</b>
Number of shares		23,030,083	23,030,083
<b>Consolidated net profit attributable to:</b>			
Shareholders of the parent		310	809
Non-controlling interests		-77	-403
Net profit (loss) per share (PLN) attributable to shareholders of the parent (basic and diluted)	5.2	0.01	0.04
<b>Total comprehensive income attributable to:</b>			
Shareholders of the parent		214	854
Non-controlling interests		-77	-403
Total comprehensive income per share (PLN)		0.01	0.04

## Consolidated statement of financial position

	Note no.	Balance at 31-12- 2017	Balance at 31-12- 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7.1	95,023	83,416
Investment property	7.2	5,591	3,717
Intangible assets	7.4	9,087	9,595
Goodwill	7.5	31,172	31,172
Retentions on construction contracts	3.2	9,696	7,334
Deferred tax assets	2.7	8,024	8,683
<b>Total non-current assets</b>		<b>158,593</b>	<b>143,917</b>
<b>Current assets</b>			
Inventories	7.10	27,938	11,287
Trade and other receivables	4.1	192,148	86,609
Retentions on construction contracts	3.2	4,718	2,177
Current tax assets	2.7	0	64
Other financial assets	7.7	0	54,935
Other assets	7.8	1,097	1,378
Loans advanced	7.9	10	289
Cash and cash equivalents	6.5	117,748	62,717
<b>Total current assets</b>		<b>343,659</b>	<b>219,456</b>
<b>Total assets</b>		<b>502,252</b>	<b>363,373</b>



	Note no.	Balance at 31-12-2017	Balance at 31-12-2016
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	5.1	5,758	5,758
Share premium account	5.3	93,837	93,837
Treasury shares	5.4	-2,690	-2,690
Retained earnings	5.5	112,605	112,391
Total equity attributable to shareholders of ZUE		209,510	209,296
Equity attributable to non-controlling interests		-91	-14
<b>Total equity</b>		<b>209,419</b>	<b>209,282</b>
<b>Non-current liabilities</b>			
Long-term loans and bank credits and other financing sources	6.1	11,224	8,892
Retentions on construction contracts	3.2	6,254	6,792
Other financial liabilities	7.11	350	630
Liabilities under employee benefits	7.12	1,888	1,864
Long-term provisions	3.3	5,756	7,645
<b>Total non-current liabilities</b>		<b>25,472</b>	<b>25,823</b>
<b>Current liabilities</b>			
Trade and other payables	4.2	224,286	82,094
Retentions on construction contracts	3.2	6,795	9,185
Short-term loans and bank credits and other financing sources	6.1	14,908	14,194
Other financial liabilities		316	317
Liabilities under employee benefits	7.12	17,522	17,928
Current tax liabilities	2.7	0	0
Short-term provisions	3.3	3,534	4,550
<b>Total current liabilities</b>		<b>267,361</b>	<b>128,268</b>
<b>Total liabilities</b>		<b>292,833</b>	<b>154,091</b>
<b>Total equity and liabilities</b>		<b>502,252</b>	<b>363,373</b>

## Consolidated statement of changes in equity

## Equity attributable to the Group's shareholders

		Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the parent	Equity attributable to non-controlling interests	Total equity
<b>Balance at</b>	<b>1 Jan 2017</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>112,391</b>	<b>209,296</b>	<b>-14</b>	<b>209,282</b>
Change of interest in subsidiaries		0	0	0	0	0	0	0
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	0	0	0	0	0
Profit (loss)		0	0	0	310	310	-77	233
Other net comprehensive income		0	0	0	-96	-96	0	-96
<b>Balance at</b>	<b>31 Dec 2017</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>112,605</b>	<b>209,510</b>	<b>-91</b>	<b>209,419</b>

		Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the parent	Equity attributable to non-controlling interests	Total equity
<b>Balance at</b>	<b>1 Jan 2016</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>119,050</b>	<b>215,955</b>	<b>389</b>	<b>216,344</b>
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)		0	0	0	809	809	-403	406
Other net comprehensive income		0	0	0	45	45	0	45
<b>Balance at</b>	<b>31 Dec 2016</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>112,391</b>	<b>209,296</b>	<b>-14</b>	<b>209,282</b>

**Consolidated statement of cash flows**

	Year ended 31-12-2017	Year ended 31-12-2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit / (loss) before tax</b>	<b>895</b>	<b>1,291</b>
<b>Adjustments for:</b>		
Depreciation and amortisation	9,833	9,578
Foreign exchange gains / (losses)	397	-689
Interest and share in profit (dividends)	552	-621
(Gain) / loss on disposal of investments including release of investment property write-down	-2,413	-157
Accrued expenses under commission on credits	17	5
Gain / (loss) on redemption of debt instruments	-302	0
<b>Operating profit before changes in working capital</b>	<b>8,979</b>	<b>9,407</b>
Change in receivables and retentions on construction contracts	-109,969	-13,541
Change in inventories	-16,652	14,572
Change in provisions and liabilities under employee benefits	-3,400	-13,259
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	139,546	-37,902
Change in accrued expenses	281	-138
Change in funds of limited availability	-6	14
Other adjustments	0	110
Income tax paid / tax refund	84	2,723
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>18,863</b>	<b>-38,014</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of property, plant and equipment and intangible assets	987	599
Purchase of property, plant and equipment and intangible assets	-21,715	-10,196
Cash payments to purchase debt instruments of other entities	-173,147	-54,928
Redemption of debt instruments of other entities	228,075	0
Loans advanced	-14	-335
Repayment of granted loans	4	74
Interest received	218	1,559
Gain / (loss) on redemption of debt instruments	309	0
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>34,717</b>	<b>-63,227</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loans and bank credits received	15,535	6,943
Repayment of loans and bank credits	-2,555	-200
Decrease in finance lease liabilities and liabilities relating to financing of property, plant and equipment	-10,281	-7,659
Interest paid	-850	-636
Other cash provided by / (used in) financing activities – dividends	-1	-7,513
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>1,848</b>	<b>-9,065</b>
<b>TOTAL NET CASH FLOWS</b>	<b>55,428</b>	<b>-110,306</b>
Net foreign exchange gains / (losses)	-397	689
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>62,717</b>	<b>172,334</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>117,748</b>	<b>62,717</b>

## Notes to the consolidated financial statements prepared as at 31 December 2017

### 1. General information

#### 1.1. Governing bodies of the Parent Company

Composition of ZUE's management and supervisory boards at the date of preparation of these financial statements:

##### Management Board:

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

##### Supervisory Board:

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

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)

On 6 June 2017, the Company's Ordinary General Meeting resolved to dismiss Ms. Magdalena Lis, the Supervisory Board Member, and appoint Ms. Barbara Nowak the Supervisory Board Vice-Chairperson for the current term. The remaining composition of the Supervisory Board did not change (Current report 39/2017).

The Audit Committee was appointed by the Company's Supervisory Board on 18 October 2017.

##### Audit Committee:

Mariusz Szubra	Chairman of the Audit Committee
Barbara Nowak	Member of the Audit Committee
Piotr Korzeniowski	Member of the Audit Committee

Mr. Mariusz Szubra and Mr. Piotr Korzeniowski meet the independence criteria referred to in the Act on Auditors, Audit Firms and Public Supervision (Journal of Laws of 2017, item 1089).

## 1.2. Shareholders of the Parent Company

According to the information held, the Parent Company had the following shareholding structure at the date of approval of these financial statements:

Shareholder	Number of shares/votes at 16 March 2018	% of share capital/total number of votes	Number of shares/votes at the publication of the last quarterly report*	% of share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
METLIFE OFE **	1,400,000***	6.08	1,400,000**	6.08
PKO Bankowy OFE	1,500,000****	6.51	1,500,000***	6.51
Other	5,729,763*****	24.88	5,729,763****	24.88
<b>Total</b>	<b>23,030,083</b>	<b>100</b>	<b>23,030,083</b>	<b>100</b>

\* Publication of the last quarterly report (Consolidated quarterly report of ZUE S.A. for III quarter of 2017): 7 November 2017.

\*\* 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.

## 1.3. Composition of the Capital Group

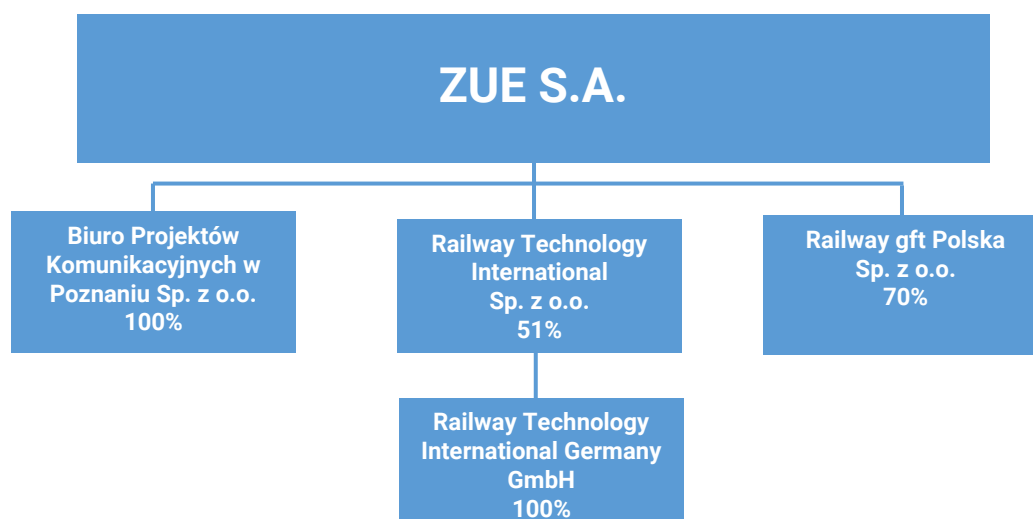
At the end of the reporting period, the Capital Group is composed of ZUE S.A. (the parent company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway Technology International Germany GmbH (indirect subsidiary) and Railway gft Polska Sp. z o.o.

ZUE Spółka Akcyjna with registered office in Cracow (the Kazimierza Czapińskiego Street no. 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.

Apart from being the provider of construction services, 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.

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

**Subsidiary – 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). Görlitz (Germany) is the company's registered office. On 1 June 2017, RTI changed its registered office from Hamburg to Görlitz.

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.

#### 1.4. Consolidated companies

Consolidated companies at 31 December 2017:

Company name	Registered office	Interests as at		Consolidation method
		31 Dec 2017	31 Dec 2016	
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 2017.

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 2017.

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

No changes to the Group's structure occurred in the reporting period.

### 1.6. Activities of the Capital Group

At present 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.

Financial data of these segments has been presented in the note no. 2.8.

### 1.7. Functional and reporting currency

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

## 2. Notes to the statement of comprehensive income

### 2.1. Revenue

Year ended 31-12-2017	Year ended 31-12-2016
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Revenue from construction contracts	407,496	286,509
Revenue from the rendering of services	14,473	5,854
Revenue from the sale of goods and raw materials	43,347	50,654
<b>Total</b>	<b>465,316</b>	<b>343,017</b>

The Group delivered its services in the territory of Poland both in 2017 and 2016. The largest portion of revenue was derived from long-term construction contracts.

The Court awarded the payment of the net amount of PLN 2,601 thousand to ZUE. The Company informed about the Court's ruling in the current report 58/2017. The amount was recognised in revenue from construction contracts.

The Group's revenue generated in 2017 was PLN 465,316 thousand. The Group's revenue increased by 36% compared to the revenue reported in 2016 and by PLN 231,857 thousand when compared with the analogous figure reported at the end of the third quarter of 2017. In the fourth quarter of 2017, the Group generated 50% of annual revenue. In the second half of 2017, it generated 77% of annual revenue. The increase in revenue reported in the second half of 2017 was mainly influenced by the performance of the new contracts under the current EU perspective. The contracts did not generate significant revenues in the first half of 2017 because they were still at an initial stage.

2017	I quarter	II quarter	III quarter	IV quarter
Revenue (PLN '000)	33,167	74,676	125,616	231,857
% - quarter	7%	16%	27%	50%
% - half year	23%		77%	

## 2.2. Operating expenses

	Year ended 31-12-2017	Year ended 31-12-2016
Change in products	239	758
Depreciation and amortization	9,833	9,578
Consumption of raw and other materials	170,385	83,217
Contracted services	130,166	136,016
Costs of employee benefits	68,376	64,034
Taxes and charges	1,697	1,733
Other expenses	17,304	7,219
Value of goods and materials sold	67,977	44,011
<b>Total</b>	<b>465,977</b>	<b>346,566</b>

The increase in operating expenses was mainly influenced by the performance of the new contracts under the current EU perspective. Upon the conclusion of the new contracts, the Group provided the bonds whose impact is seen in the Other expenses item.

	Year ended 31-12-2017	Year ended 31-12-2016
Cost of sales	446,224	326,354
General and administrative expenses	19,753	20,212
<b>Total</b>	<b>465,977</b>	<b>346,566</b>

The Group's general and administrative expenses between 1 January and 31 December 2017 stood at PLN 19,753 thousand – down by 2% when compared with ZUE's general and administrative expenses in 2016. General and administrative expenses include the costs of tender procedures, for instance bid bonds of PLN 345 thousand.

## Depreciation and amortisation

	Year ended 31-12-2017	Year ended 31-12-2016
Depreciation of property, plant and equipment	8,945	8,530
Amortisation of intangible assets	551	703
Depreciation of investments in real property	337	345



<b>Total</b>	<b>9,833</b>	<b>9,578</b>
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### 2.3. Other operating income

	Year ended 31-12-2017	Year ended 31-12-2016
<b>Gain on disposal of assets</b>	<b>213</b>	<b>87</b>
Gain on disposal of non-current assets	213	87
<b>Other operating income</b>	<b>5,696</b>	<b>5,593</b>
Re-invoicing of bonds and insurance policies	930	255
Damages and penalties	1,571	628
Release of write-downs of receivables	501	1,966
Refund of costs of court proceedings	94	40
Release of provisions for court proceedings	0	1,567
Release of allowances for inventories	79	353
Release of investment property impairment loss	2,200	0
Other	321	784
<b>Total</b>	<b>5,909</b>	<b>5,680</b>

In 2017, the Group released the investment property impairment loss of PLN 2,200 thousand in connection with investment plans and revisions of estimates.

### 2.4. Other operating expenses

	Year ended 31-12-2017	Year ended 31-12-2016
<b>Loss on disposal of assets</b>	<b>0</b>	<b>4</b>
Loss on disposal of non-current assets	0	4
<b>Other operating expenses</b>	<b>3,607</b>	<b>1,973</b>
Donations	17	63
Damages and penalties	905	158
Costs of litigations	284	349
Re-invoicing of bonds and insurance policies	930	255
Revaluation of inventories	0	47
Write-downs of receivables	1,280	696
Remission of debt	0	3
Other	191	402
<b>Total</b>	<b>3,607</b>	<b>1,977</b>

Write-downs of PLN 1,280 thousand were recognised by the Group in the reporting period including the write-down recognised in connection with an invoice for additional works issued by PKP PLK to be enforced before the court.

### 2.5. Financial income

	Year ended 31-12-2017	Year ended 31-12-2016
<b>Interest income</b>	<b>1,348</b>	<b>1,501</b>
Interest on bank deposits	224	1,440
Interest on loans	8	3
Interest on receivables	1,116	58
<b>Other financial income</b>	<b>585</b>	<b>1,029</b>
Foreign exchange gains	0	785
Discount of long-term items	272	169
Realisation of financial instruments	309	0
Other	4	75
<b>Total</b>	<b>1,933</b>	<b>2,530</b>

The decrease in financial income was a result of using more money to conduct operating activities (e.g. to perform the newly won contracts) and, consequently, investing less money in deposits and other financial instruments, for instance bonds.

The increase in Realisation of financial instruments was influenced by the sale of corporate bonds.

According to the court judgments passed in 2017, the Group received statutory interest of PLN 896 thousand.

## 2.6. Financial expenses

	Year ended 31-12-2017	Year ended 31-12-2016
<b>Interest expenses</b>	<b>1,093</b>	<b>660</b>
Interest on bank credits	274	190
Interest on finance lease liabilities and liabilities relating to financing of property, plant and equipment	576	449
Interest on loans	7	7
Interest on trade and other payables	236	14
<b>Other financial expenses</b>	<b>1,586</b>	<b>733</b>
Foreign exchange losses	663	36
Discount of long-term items	562	494
Allowance for investments in other entities	0	118
Other	361	85
<b>Total</b>	<b>2,679</b>	<b>1,393</b>

Foreign exchange losses were a factor contributing to the increase in financial expenses.

## 2.7. Corporate income tax

### Corporate income tax recognised in profit or loss

	Year ended 31-12-2017	Year ended 31-12-2016
Current income tax	-20	1,101
Deferred tax	682	-216
<b>Total tax expense/income</b>	<b>662</b>	<b>885</b>

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.

The Group is subject to general regulations governing corporate income tax. The Group neither forms a tax capital group nor operates in a Special Economic Zone. Tax year and financial year coincide with a calendar year.

## Current income tax

	Year ended 31-12-2017	Year ended 31-12-2016
<b>Gross profit (loss)</b>	<b>895</b>	<b>1,291</b>
Difference between gross profit (loss) and income tax base:	-1,492	-44,625
- 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	-353	-44,625
- other differences (including loss brought forward)	-1,139	0
Income/loss	-597	-43,334
Income tax base	0	0
Income tax at the applicable rate of 19%	0	0
Income tax paid /(tax refund) on income earned abroad	-20	978
Tax increases, waivers, exemptions, deductions and reductions	0	0
Adjustment of income tax for previous periods	0	123
<b>Current income tax</b>	<b>-20</b>	<b>1,101</b>

## Current tax assets and liabilities

	Balance at 31-12-2017	Balance at 31-12-2016
<b>Current tax assets</b>		
Tax refundable	0	64
<b>Current tax liabilities</b>		
Tax payable	0	0

## Deferred tax balance

	Balance at 31-12-2017	Balance at 31-12-2016
<b>Deferred tax balance at the beginning of the year</b>	<b>8,683</b>	<b>8,477</b>
<b>Temporary differences relating to deferred tax assets:</b>	<b>24,297</b>	<b>15,037</b>
Provisions for expenses and accruals	10,850	9,059
Discount of receivables	375	279
Liabilities under leases	122	323
Write-downs	1,188	1,401
Bonds and insurance settled over time	2,109	443
Other	790	800
Tax work in progress	8,863	2,732
<b>Temporary differences relating to deferred tax liabilities:</b>	<b>23,994</b>	<b>14,224</b>
Valuation of long-term contracts	14,207	4,222
Property, plant and equipment and intangible assets	9,069	9,278
Discount of payables	441	398
Other	277	326
<b>Unused tax losses and other tax credits:</b>	<b>7,721</b>	<b>7,870</b>
Tax losses	7,721	7,870
Tax credits	0	0
Other	0	0
<b>Total temporary differences relating to deferred tax assets:</b>	<b>32,018</b>	<b>22,907</b>
<b>Total temporary differences relating to deferred tax liabilities:</b>	<b>23,994</b>	<b>14,224</b>
<b>Deferred tax balance at the end of the year</b>	<b>8,024</b>	<b>8,683</b>
<b>Change in deferred tax, including:</b>	<b>-659</b>	<b>206</b>
- recognised in income	-682	216
- recognised in equity	23	-10

The recognition of deferred tax in equity is a result of calculating tax on profit/actuarial losses presented in comprehensive income.

## 2.8. 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.

Each segment jointly meets 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 in 2017:

	Construction	Sales	Design	Exclusions	Total
<b>Revenue</b>	<b>408,487</b>	<b>75,383</b>	<b>17,805</b>	<b>-36,359</b>	<b>465,316</b>
including:					
Revenue from external customers	407,912	42,615	15,346	-557	465,316
Inter-segment revenues	575	32,768	2,459	-35,802	0
<b>Gross profit</b>	<b>15,691</b>	<b>2,479</b>	<b>1,528</b>	<b>-606</b>	<b>19,092</b>
Financial income / expenses	-17	-652	-51	-26	-746
Interest received	217	0	1	0	218
Interest paid	-572	-270	-8	0	-850
<b>Pre-tax profit</b>	<b>1,504</b>	<b>-247</b>	<b>206</b>	<b>-568</b>	<b>895</b>
Corporate income tax	665	40	65	-108	662
<b>Net profit</b>	<b>839</b>	<b>-287</b>	<b>141</b>	<b>-460</b>	<b>233</b>
Depreciation and amortisation	9,753	23	86	-29	9,833
Property, plant and equipment	92,004	4	170	2,845	95,023
Non-current assets	158,317	219	657	-600	158,593
<b>Total assets</b>	<b>475,282</b>	<b>18,886</b>	<b>16,750</b>	<b>-8,666</b>	<b>502,252</b>
<b>Total liabilities</b>	<b>264,916</b>	<b>19,185</b>	<b>16,535</b>	<b>-7,803</b>	<b>292,833</b>

#### Operating segments results in 2016:

	Construction	Sales	Design	Exclusions	Total
<b>Revenue</b>	<b>311,086</b>	<b>98,017</b>	<b>10,204</b>	<b>-76,290</b>	<b>343,017</b>
including:					
Revenue from external customers	310,265	23,130	9,341	281	343,017
Inter-segment revenues	821	74,887	863	-76,571	0
<b>Gross profit</b>	<b>13,851</b>	<b>1,520</b>	<b>1,458</b>	<b>-167</b>	<b>16,663</b>
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
<b>Pre-tax profit</b>	<b>2,328</b>	<b>-1,252</b>	<b>39</b>	<b>177</b>	<b>1,291</b>
Corporate income tax	848	57	-53	34	885
<b>Net profit</b>	<b>1,480</b>	<b>-1,309</b>	<b>93</b>	<b>143</b>	<b>406</b>
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
<b>Total assets</b>	<b>344,332</b>	<b>34,466</b>	<b>8,064</b>	<b>-23,489</b>	<b>363,373</b>
<b>Total liabilities</b>	<b>134,709</b>	<b>34,478</b>	<b>7,991</b>	<b>-23,087</b>	<b>154,091</b>

**Concentration of revenue that exceeds 10% of total revenue**

	<b>Balance at 31-12-2017</b>
Counterparty A	175,840
Counterparty B	77,701
Counterparty C	52,282

### 3. Contracts, retentions and provisions

#### 3.1. Construction contracts

The following details relate to long-term construction contracts performed by the Group.

##### Selected items

	<b>Balance at 31-12-2017</b>	<b>Balance at 31-12-2016</b>
Revenue from long-term construction contracts	376,222	261,068
Costs of long-term construction contracts	368,530	249,490
<b>Gross profit (loss) on long-term contracts</b>	<b>7,692</b>	<b>11,578</b>
Revenue from long-term construction contracts (cumulative)	532,899	415,448
Costs of long-term construction contracts (cumulative)	519,138	416,571
<b>Gross profit (loss) on long-term contracts (cumulative)*</b>	<b>13,761</b>	<b>-1,123</b>
<b>Assets (selected items)</b>	<b>98,878</b>	<b>34,285</b>
- Valuation of contracts	74,208	22,211
- Advance payments for contracts	10,256	2,563
- Retentions on construction contracts retained by customers	14,414	9,511
<b>Liabilities (selected items)</b>	<b>132,898</b>	<b>49,817</b>
- Valuation of contracts	724	1,586
- Provisions for contract costs	34,923	21,330
- Advance payments for contracts	75,128	0
- Retentions on construction contracts retained for suppliers	13,049	15,977
- Provisions for warranty claims	8,458	10,878
- Provisions on expected losses on contracts	616	46

\*Gross profit (loss) on pending long-term construction contracts at the end of the reporting period (cumulative).

#### 3.2. Retentions on construction contracts

	<b>Balance at 31-12-2017</b>	<b>Balance at 31-12-2016</b>
Retained by customers – to be repaid after 12 months	9,696	7,334
Retained by customers – to be repaid within 12 months	4,718	2,177
<b>Total retentions on construction contracts retained by customers</b>	<b>14,414</b>	<b>9,511</b>
Retained for suppliers – to be repaid after 12 months	6,254	6,792
Retained for suppliers – to be repaid within 12 months	6,795	9,185
<b>Total retentions on construction contracts retained for suppliers</b>	<b>13,049</b>	<b>15,977</b>

The construction contracts and work-for-hire contracts entered into by the Group provide for an obligation to provide performance bonds and defects liability bonds in the form of cash or bonds issued by banks or insurance companies. If the term of a bond provided by a bank is longer than 37 months, the bank establishes additional security in the form of cash deposit.

#### Discount recognised in profit or loss

	Balance at 31-12-2017	Balance at 31-12-2016
Discount of long-term retentions on construction contracts retained by customers	360	591
Discount of long-term retentions on construction contracts retained for suppliers	1,021	955
Adjustment of financial income	67	10
Adjustment of financial expenses	328	316
Deferred tax on above adjustments	50	58
<b>Net effect on profit or loss</b>	<b>-211</b>	<b>-248</b>

#### Ageing analysis of past due retentions on construction contracts (nominal values before discount)

	Balance at 31-12-2017	Balance at 31-12-2016
<b>Past due retentions on construction contracts:</b>		
– up to 1 month	0	1
– 1 - 3 months	0	14
– 3 - 6 months	0	0
– 6 months - 1 year	0	0
– over 1 year	293	327
<b>Total past due retentions on construction contracts (gross)</b>	<b>293</b>	<b>342</b>
Write-downs	-293	-295
<b>Total past due retentions on construction contracts (net)</b>	<b>0</b>	<b>47</b>

#### Discount rate

The effective discount rate in 2017 and 2016 used for retention discounting was 3.5%.

### 3.3.Provisions

Provisions	01-01-2017	Created	Used	Released	Reclassified	31-12-2017	Item
<b>Long-term provisions:</b>	<b>9,509</b>	<b>1,934</b>	<b>152</b>	<b>61</b>	<b>-3,586</b>	<b>7,644</b>	
Provisions for employee benefits	1,864	175	24	2	-125	1,888	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,645	1,759	128	59	-3,461	5,756	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
<b>Short-term provisions:</b>	<b>17,056</b>	<b>18,581</b>	<b>12,928</b>	<b>11,869</b>	<b>3,586</b>	<b>14,426</b>	
Provisions for employee benefits	12,506	13,803	12,152	3,390	125	10,892	Liabilities under employee benefits (short-term)

Provisions for warranty claims	3,233	367	679	3,680	3,461	2,702	Short-term provisions
Provision for loss on contracts	46	4,333	0	4,770	1,007	616	Short-term provisions
Other provisions	1,271	78	97	29	-1,007	216	Short-term provisions
<b>Total provisions:</b>	<b>26,565</b>	<b>20,515</b>	<b>13,080</b>	<b>11,930</b>	<b>0</b>	<b>22,070</b>	

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Group 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. The release of provisions for warranty claims in 2017 is a result of the analysis of current risks relating to potential repairs and defects under contracts and the expiry of warranty terms.

Provisions for employee benefits include the provisions for leaves, bonuses and overtime work.

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

## 4. Trade and other receivables and payables

### 4.1. Trade and other receivables

	Balance at 31-12-2017	Balance at 31-12-2016
Trade receivables	116,820	70,476
Write-downs of trade receivables	-13,893	-15,229
Receivables from the state budget other than corporate income tax	438	6,332
Receivables under contracts (valuation)	74,208	22,211
Advance payments	10,256	2,563
Other receivables	4,319	256
<b>Total trade and other receivables</b>	<b>192,148</b>	<b>86,609</b>

Receivables under contracts increased mainly as a result of greater progress of works relating to the performance of new contracts.

The increase in other receivables was influenced by the creation of security (deposit for the benefit of the bank) in connection with the financing agreement of PLN 4,000 thousand.

The Group receives advance payments from Investors (see Liabilities) and transfers them also to subcontractors to ensure timely performance of construction contracts.

### Ageing analysis of trade receivables

	Balance at 31-12-2017	Balance at 31-12-2016
<b>Not past due receivables</b>	<b>80,781</b>	<b>47,845</b>
<b>Receivables that are past due but not impaired</b>	<b>22,147</b>	<b>7,402</b>
1-30 days	20,490	4,709
31-60 days	198	240
61-90 days	71	935
91-180 days	136	97
181-360 days	9	154



360 + days	1,243	1,267
<b>Past due receivables on which write-downs were recognized</b>	<b>13,892</b>	<b>15,229</b>
1-30 days	317	9
31-60 days	400	171
61-90 days	175	48
91-180 days	277	2,207
181-360 days	957	731
360 + days	11,766	12,063
<b>Total trade receivables (gross)</b>	<b>116,820</b>	<b>70,476</b>
<b>Write-downs of trade receivables</b>	<b>-13,893</b>	<b>-15,229</b>
<b>Total trade receivables (net)</b>	<b>102,927</b>	<b>55,247</b>

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

	Balance at 31-12-2017
Counterparty A	66,955
<b>Total</b>	<b>66,955</b>

The concentration of credit risk is limited due to the fact that the creditability of the abovementioned counterparty assessed, *inter alia*, by analysing their financial standing is high and the fact that the said company meets additional requirements concerning the settlement of EU funds. The Group has carried out the construction contracts for the Counterparty A for many years. The Counterparty A is co-owned by the State Treasury as a result of which their creditability is even higher. Accordingly, the Management Board of the Company believe there is no need to create additional allowances.

#### 4.2. Trade and other payables

	Balance at 31-12-2017	Balance at 31-12-2016
Trade payables	96,216	58,089
Liabilities to the state budget other than corporate income tax	16,965	1,082
Accruals	35,110	21,231
Liabilities under contracts (valuation)	724	1,586
Other payables	143	106
Advance payments	75,128	0
<b>Total trade and other payables</b>	<b>224,286</b>	<b>82,094</b>

The items include:

- Accruals – provisions for the costs of subcontractors and provisions for the risks relating to the settlement of contracts;
- Advance payments – prepayments received by ZUE on the basis of contracts with PKP PLK. Under the said contracts, ZUE received advance payments to perform construction contracts.

#### Ageing analysis of trade payables

	Balance at 31-12-2017	Balance at 31-12-2016
<b>Not past due payables</b>	<b>83,431</b>	<b>53,498</b>
<b>Past due payables</b>	<b>12,785</b>	<b>4,591</b>
1-30 days	12,647	4,251

31-60 days	1	58
61-90 days	0	9
91-180 days	0	1
181-360 days	41	89
360 + days	96	183
<b>Total trade payables</b>	<b>96,216</b>	<b>58,089</b>

## 5. Equity

### 5.1. Share capital

The amount of the registered share capital and the amount recognised in the financial statements as at 31 December 2017 was PLN 5,757,520.75.

#### Share capital as at 16 March 2018

(PLN)

Class / issue	Type of shares	Number of shares	Value of class/issue at par value	Contribution	Registration date (Right to dividend from registration date)
Class A	Ordinary bearer shares	16,000,000	4,000,000.00	Contribution in kind	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
Class C	Bearer – "Merger shares"	1,030,083	257,520.75	Fully paid up in cash by way of issue	20 December 2013
<b>Total</b>		<b>23,030,083</b>	<b>5,757,520.75</b>		

Class A, B and C shares are not preferred and rights to shares are not limited.

At 31 December 2017, the share capital structure was the same as at 16 March 2018.

### 5.2. Profit (loss) per share

(PLN)

	Year ended 31-12-2017	Year ended 31-12-2016
Basic profit (loss) per share	0.01	0.04
Diluted profit (loss) per share	0.01	0.04

#### Basic profit per share

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

(PLN)

	Year ended 31-12-2017	Year ended 31-12-2016
Profit (loss) per share for the financial year	0.01	0.04
<b>Total profit (loss) used in the calculation of basic profit per share</b>	<b>310,120.50</b>	<b>808,734.09</b>

Weighted average number of ordinary shares used in the calculation of profit (loss) per share	23,030,083	23,030,083
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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

There are no diluting instruments.

## 5.3. Share premium account

	Balance at 31-12-2017	Balance at 31-12-2016
<b>Balance at the beginning of the year</b>	<b>93,837</b>	<b>93,837</b>
Share issue	0	0
Issue costs	0	0
<b>Balance at the end of the year</b>	<b>93,837</b>	<b>93,837</b>

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 2014-2017.

## 5.4. Treasury shares

At the date of preparation of these financial statements, 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.

## 5.5. Retained earnings

	Balance at 31-12-2017	Balance at 31-12-2016
<b>Balance at the beginning of the year</b>	<b>112,391</b>	<b>119,050</b>
Net profit distribution	809	17,194
Reserve funds	809	17,194
Capital reserve	0	0
Coverage of loss brought forward	0	0
<b>Profit (loss) for the current year</b>	<b>310</b>	<b>809</b>
<b>Other net comprehensive income</b>	<b>-96</b>	<b>45</b>
<b>Payment of dividend for the previous year</b>	<b>0</b>	<b>-7,513</b>
<b>Balance at the end of the year</b>	<b>112,605</b>	<b>112,391</b>

The retained earnings of prior years entirely comprise the earnings retained at companies on the basis of the decision made by shareholders and the consequences of the IFRS implementation.

The companies create a capital reserve according to the articles of association. 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 reserve funds meet the requirements of Art. 396 of the Polish Companies Act (the Act). According to the Act, reserve funds should be created so that a loss can be financed. At least 8% of profits for the

financial year should be transferred to the reserve funds until the reserve funds reach at least one third of the share capital.

## 6. Debt and management of capital and liquidity

### 6.1. Loans and bank credits and other financing sources

	Balance at 31-12-2017	Balance at 31-12-2016
<b>Long-term</b>	<b>11,224</b>	<b>8,892</b>
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	7,714	3,292
Finance lease liabilities	3,510	5,600
<b>Short-term</b>	<b>14,908</b>	<b>14,194</b>
Bank credits	5,851	8,153
Received loans	250	243
Liabilities relating to financing of property, plant and equipment	6,680	3,554
Finance lease liabilities	2,127	2,244
<b>Total</b>	<b>26,132</b>	<b>23,086</b>

Liabilities relating to financing of property, plant and equipment include leasebacks, which include contracts for ballast cleaning wagons of PLN 14,600 thousand and contracts for cars of PLN 682 thousand.

#### Finance lease liabilities (excluding leaseback)

	Minimum lease payments		Present value of minimum lease payments	
	Balance at 31-12-2017	Balance at 31-12-2016	Balance at 31-12-2017	Balance at 31-12-2016
Not later than one year	2,270	2,455	2,127	2,244
Later than one year and not later than five years	3,610	5,842	3,510	5,600
Later than five years	0	0	0	0
Less: future finance charges	-243	-453	0	0
<b>Present value of minimum lease payments</b>	<b>5,637</b>	<b>7,844</b>	<b>5,637</b>	<b>7,844</b>
Leases presented in the financial statements as:				
Short-term loans and bank credits and other financing sources			2,127	2,244
Long-term loans and bank credits and other financing sources			3,510	5,600

#### General terms of finance lease and leaseback

The term of finance lease agreements concerning manufacturing equipment is from three to six years. The Group has an option to purchase the equipment at the end of the lease for a price equal to their residual value. The Group's obligations under finance leases are secured by the lessor's title to the leased assets and a blank bill of exchange or the lessor's authority given by ZUE to charge the Company's bank account.

**Leaseback (named for presentation purposes as the agreement for the financing of property, plant and equipment)**

The Group entered into leaseback transactions with an option to purchase at the end of the lease. The transactions are formally defined as sale and leaseback transactions but the Group believes they are not sales transactions within the meaning of IAS 18 or IAS 17 because no control is lost over the assets when the transaction is entered into. Risks and benefits relating to the leased assets are on the Group's side throughout the lease term. According to the Group, the right of use has not been conveyed. The transactions are presented in notes to the financial statements as other financing sources secured by the property, plant and equipment which remain the Company's assets throughout the term of lease.

**Summary of credit agreements**

No.	Bank	Description	Principal/limit according to the agreement	Use as at 31.12.2017	Interest	Repayment date
1	mBank S.A.	Overdraft	5,000	0	O/N WIBOR for interbank credits + margin	11-05-2018
2	mBank S.A. (ii)	Cooperation agreement including: sublimit for bonds sublimit for working credit facilities	50,000 50,000 30,000	2,500 2,500 0	3M WIBOR + margin	17-07-2020
3	BGŻ BNP PARIBAS (iv)	Multipurpose credit line agreement including: sublimit for bonds sublimit for working credit facilities	170,000 170,000 20,000	71,553 71,553 0	1M WIBOR + margin	26-10-2018
4	PEKAO SA (i) (iii)	Multipurpose credit limit agreement including: sublimit for bonds sublimit for working credit facilities	100,000 100,000 20,000	16,810 16,810 0	1M WIBOR + margin	30-11-2018
5	BGŻ BNP Paribas S.A.	Multipurpose credit line	300	0	1M WIBOR + margin	24-07-2018
6	mBank S.A.	Overdraft	300	0	O/N WIBOR for interbank credits + margin	08-06-2018
7	mBank S.A.	Working credit facility for contract prefinancing	2,000	598	1M WIBOR + margin	15-05-2018
8	BGŻ BNP Paribas (v)	Non-revolving credit	300	253	1M WIBOR + margin	28-02-2018
9	mBank S.A.	Revolving credit	5,000	5,000	1M WIBOR + margin	24-08-2018
10	BGŻ BNP Paribas S.A.	Revolving credit agreement	3,000	0	3M WIBOR + margin	08-08-2018
<b>Total use of credits at the Group</b>				<b>5,851</b>		
<b>Total use of bonds at the Group</b>				<b>90,863</b>		

(i) ZUE may use the available credit limit for bank guarantees.

(ii) Annex no. 7 of 23.06.2017 whereby the limit was raised to PLN 50,000 thousand.

(iii) Annex no. 1 of 31.10.2017 whereby the limit was raised to PLN 100,000 thousand.

(iv) Annex no. 3 of 27.10.2017 to the Financing Agreement whereby previous agreements are terminated and the new multipurpose credit line agreement is concluded.

(v) Agreement of 11.09.2017.

Security and liabilities relating to concluded credit agreements:

1. **Overdraft** – security: bill of exchange;

2. **Cooperation agreement** – security: mortgage, deposit;
3. **Multipurpose credit line agreement** – security: bill of exchange, cash deposit for the bonds expiring after 37 months; security deposit of PLN 4,000 thousand, registered pledge on non-current assets owned by the Borrower; assignment of rights under policy;
4. **Multipurpose credit limit agreement** – security: assignment of claims; registered pledge on non-current assets owned by the Borrower; assignment of rights under policy; cash deposit for the bonds expiring after 37 months;
5. **Multipurpose credit line** – security: blank bill of exchange; Borrower's statement about submission to enforcement;
6. **Overdraft** – security: blank bill of exchange; ZUE's guarantees;
7. **Working credit facility for contract prefinancing** – security: blank bill of exchange; assignment of claims; ZUE's guarantees;
8. **Non-revolving credit** – security: blank bill of exchange; ZUE's guarantees;
9. **Working credit facility** – security: ZUE's guarantees; registered pledge on inventories owned by Railway gft; blank bill of exchange; statement about submission to enforcement; assignment of rights under insurance policy;
10. **Revolving credit** – security: blank bill of exchange issued by Railway gft with declaration; blank bill of exchange issued by ZUE with declaration; statement by Railway gft about submission to enforcement.

## 6.2. 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.

	Balance at 31-12-2017	Balance at 31-12-2016
Long- and short-term loans and bank credits and other financing sources	26,132	23,086
Long- and short-term other financial liabilities	666	947
	<b>26,798</b>	<b>24,033</b>
Cash and cash equivalents	117,748	62,717
Other financial assets	0	54,935
	<b>117,748</b>	<b>117,652</b>
<b>Net debt</b>	<b>-90,950</b>	<b>-93,619</b>
Equity	209,419	209,282
<b>Net debt to equity ratio</b>	<b>-43.43%</b>	<b>-44.73%</b>

The Group's long- and short-term debt mainly includes liabilities under leases for the purchase of non-current assets and liabilities relating to the financing of property, plant and equipment.

The Group disclosed negative net debt because the value of funds was greater than total debt at the end of 2017. The Group mainly uses own funds to finance day-to-day operations. In addition, credit lines are available to the Group. At the end of the reporting period, the said credit lines were mainly used for bonds.

### Changes in liabilities resulting from financing activities

Item	Non-cash flows					31-12-2017
	01-01-2017	Cash flows (change)	Change on gain/loss of control	Change on exchange gains/losses	Reclassification	
Long-term loans and bank credits and other financing sources	8,892	0	0	0	2,332	11,224
Long-term other financial liabilities	630	0	0	0	-280	350
Short-term loans and bank credits and other financing sources	14,194	3,046	0	0	-2,332	14,908

Short-term other financial liabilities	317	-281	0	0	280	316
<b>Total financing liabilities</b>	<b>24,033</b>	<b>2,765</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26,798</b>

### 6.3. Non-cash transactions and financing sources

In 2017, 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 61 thousand under a finance lease.

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 860 thousand under a finance lease.

### 6.4. Financial risk management

The main financial instruments used by the Group include:

- Bank credits – loans whose aim is to obtain funds to finance operations;
- Finance leases and agreements for the financing of property, plant and equipment whose aim is to obtain funds to finance investments;
- Trade and other receivables and payables as well as cash and short-term deposits arising during the course of the Group'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 Management 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 exchange 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 Group's experience and knowledge of financial markets, at -5% / +5% for EUR/PLN exchange rate as at 31 December 2017.

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).

		Nominal value at the end of the reporting period	Sensitivity to changes at 31 December 2017		
Currency			Depreciation of PLN	Appreciation of other currencies	
			+5%	-5%	
Cash	EUR	2,181	109	-109	
	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	247	-12	12	
Trade and other receivables	EUR	5,130	257	-257	
<b>Gross effect on profit or loss of the period</b>			<b>353</b>	<b>-353</b>	



**and net assets**

Deferred tax	-67	67
<b>Total</b>	<b>286</b>	<b>-286</b>

**Interest rate risk**

The Group is exposed to interest rate risk mainly because it uses such instruments as leases and multi-purpose lines of credit. These financial instruments are based on variable interest rates and expose the Group 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 2017. 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 2017.

	Amount at the end of the reporting period	Balance at 31-12-2017	
		+100 bp	-100 bp
Long-term retentions on construction contracts (discount):			
– recognised in assets (present value)	9,696	16	10
– recognised in liabilities (present value)	6,254	19	-21
Cash at banks	117,748	1,177	-1,177
Advanced loans	10	0	0
Bank credits and loans	6,101	-61	61
Liabilities relating to financing of property, plant and equipment	14,394	-144	144
Finance lease liabilities	5,637	-56	56
<b>Gross effect on profit or loss of the period and net assets</b>		<b>951</b>	<b>-927</b>
Deferred tax		-181	176
<b>Total</b>		<b>770</b>	<b>-751</b>

**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.

The Group protects itself against the price risk by signing master agreements for the supply of strategic materials.

On the basis of available market data as well as the Group's knowledge and experience, the price 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 (excluding trade receivables from contracting authorities (investors) in connection with the 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. If possible, contracts provide for the Group's ability to pay its subcontractors after the Group has been paid by an investor.

### Liquidity risk

The Group reduces liquidity risk by maintaining sufficient cash and concluding multi-purpose 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 7.13 – Financial instruments.

## 6.5. Cash and cash equivalents

	Balance at 31-12-2017	Balance at 31-12-2016
Cash on hand and at banks	106,748	54,217
Bank deposits up to three months	11,000	8,500
<b>Total</b>	<b>117,748</b>	<b>62,717</b>

Cash at the end of 2016 does not include the corporate bonds held by ZUE of PLN 54,935 thousand (Other financial assets).

In addition, the cash of PLN 9,998 thousand is kept on ZUE's escrow accounts at 31 December 2017. The cash is payable to the Company and consortium members. ZUE does not have a full control of the funds and cannot use them without the consortium's consent. Accordingly, the Company believes that the cash cannot be defined as assets and is not presented in the balance sheet at 31 December 2017. There was no cash on ZUE's escrow accounts at the end of 2016.

### Discussion of items of the statement of cash flows

The Group's cash flows from operating activities of PLN 29,246 thousand were mainly influenced by changes in retentions, payables and receivables in connection with the performance of the new contracts and the settlement of contracts completed in the fourth quarter of 2017.

Positive cash flows from investing activities of PLN 34,333 thousand were mainly influenced by the settlement of the investment of the Company's funds in corporate bonds.

The Group's cash flows from financing activities of PLN 1,848 thousand were mainly influenced by the leaseback used to finance the purchase of non-current assets and the decrease in liabilities under leases.

	Year ended 31-12-2017	Year ended 31-12-2016
Cash flows from operating activities	18,863	-38,014
Cash flows from investing activities	34,717	-63,227
Cash flows from financing activities	1,848	-9,065
<b>Total net cash flows</b>	<b>55,428</b>	<b>-110,306</b>
Cash and cash equivalents at the beginning of the year	62,717	172,334
Cash and cash equivalents at the end of the year	117,748	62,717

The Group's cash increased by PLN 55,031 thousand compared to the end of 2016 as a result of the abovementioned changes.

## 7. Other notes to the financial statements

### 7.1. Property, plant and equipment

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
<b>Gross value</b>	<b>1 January 2017</b>	<b>0</b>	<b>26,124</b>	<b>47,520</b>	<b>51,151</b>	<b>2,151</b>	<b>126,946</b>	<b>518</b>	<b>2,967</b>	<b>130,431</b>
Additions		0	38	282	17,006	148	17,474	4,014	3,705	25,193
Transfer to non-current assets		0	0	0	0	0	0	1,330	2,967	4,297
Sale/liquidation		0	0	963	770	28	1,761	0	0	1,761
<b>Balance at</b>	<b>31 December 2017</b>	<b>0</b>	<b>26,162</b>	<b>46,839</b>	<b>67,387</b>	<b>2,271</b>	<b>142,659</b>	<b>3,202</b>	<b>3,705</b>	<b>149,566</b>

Depreciation		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at</b>	<b>1 January 2017</b>	<b>0</b>	<b>6,817</b>	<b>19,126</b>	<b>19,343</b>	<b>1,729</b>	<b>47,015</b>	<b>0</b>	<b>0</b>	<b>47,015</b>
Elimination on disposal of assets		0	0	713	680	24	1,417	0	0	1,417
Depreciation expense		0	951	3,100	4,745	149	8,945	0	0	8,945
<b>Balance at</b>	<b>31 December 2017</b>	<b>0</b>	<b>7,768</b>	<b>21,513</b>	<b>23,408</b>	<b>1,854</b>	<b>54,543</b>	<b>0</b>	<b>0</b>	<b>54,543</b>

Carrying amount		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at</b>	<b>1 January 2017</b>	<b>0</b>	<b>19,307</b>	<b>28,394</b>	<b>31,808</b>	<b>422</b>	<b>79,931</b>	<b>518</b>	<b>2,967</b>	<b>83,416</b>
<b>Balance at</b>	<b>31 December 2017</b>	<b>0</b>	<b>18,394</b>	<b>25,326</b>	<b>43,979</b>	<b>417</b>	<b>88,116</b>	<b>3,202</b>	<b>3,705</b>	<b>95,023</b>

The Group did not recognise any impairment losses in the reporting period.

At the end of 2017, the value of liabilities incurred to purchase property, plant and equipment was PLN 91 thousand. At 31 December 2017, the gross carrying amount of fully depreciated property, plant and equipment still used by the Group was PLN 11,011 thousand.

**Assets pledged as security**

Note 7.18 deals with property, plant and equipment used to secure the agreements with banks. The Group's liabilities under finance lease and liabilities arising from the financing of property, plant and equipment (note 6.1) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

## 7.2. Investment property

Gross value		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	1 January 2017	126	4,251	2,371	0	0	0	6,748
Additions		0	0	11	0	0	0	11
Impairment		0	0	-2,200	0	0	0	-2,200
Sale/liquidation		0	0	0	0	0	0	0
Balance at	31 December 2017	126	4,251	4,582	0	0	0	8,959

Depreciation		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	1 January 2017	0	1,324	1,707	0	0	0	3,031
Elimination on disposal of assets		0	0	0	0	0	0	0
Depreciation expense		0	166	171	0	0	0	337
Balance at	31 December 2017	0	1,490	1,878	0	0	0	3,368

Carrying amount		Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at	1 January 2017	126	2,927	664	0	0	0	3,717
Balance at	31 December 2017	126	2,761	2,704	0	0	0	5,591

As at 31 December 2017, 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.

In 2017, the Group partially released the impairment loss of PLN 2,200 thousand due to revisions in estimates. The total value of investment property impairment losses recognised in previous years is PLN 1,770 thousand.

The investment property was measured at purchase price less impairment losses. The Group did not derive any income from the lease of investment property in 2016 or 2017. Operating expenses relating to the investment property amounted to PLN 508 thousand (PLN 594 thousand in 2016).

### 7.3. Non-current assets held for sale

No non-current assets held for sale were held by the Group as at 31 December 2017.

### 7.4. Intangible assets

#### Structure of intangible assets

	Balance at 31-12-2017	Balance at 31-12-2016
<b>Acquired concessions, patents, licenses and similar assets, including:</b>	<b>573</b>	<b>960</b>
- Software	573	960
<b>Other intangible assets, including:</b>	<b>8,514</b>	<b>8,635</b>
- Leasehold	8,514	8,635
<b>Total</b>	<b>9,087</b>	<b>9,595</b>

#### Movements in intangible assets

	Leasehold	Other intangible assets – software	Total
<b>Gross value</b>			
<b>Balance at 1 January 2017</b>	<b>9,341</b>	<b>4,499</b>	<b>13,840</b>
Additions – merger of companies	0	0	0
Additions	0	43	43
Disposal/liquidation	0	3	3
<b>Balance at 31 December 2017</b>	<b>9,341</b>	<b>4,539</b>	<b>13,880</b>
<b>Amortisation and impairment</b>			
<b>Balance at 1 January 2017</b>	<b>706</b>	<b>3,539</b>	<b>4,245</b>
Amortisation expense	121	430	551
Disposal/liquidation	0	3	3
<b>Balance at 31 December 2017</b>	<b>827</b>	<b>3,966</b>	<b>4,793</b>
<b>Carrying amount</b>			
<b>Balance at 1 January 2017</b>	<b>8,635</b>	<b>960</b>	<b>9,595</b>
<b>Balance at 31 December 2017</b>	<b>8,514</b>	<b>573</b>	<b>9,087</b>

No impairment losses were recognised by the Group in 2017 or 2016.

### 7.5. Goodwill

The goodwill of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. (PRK) 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 PRK is assigned in full to the construction activity segment.

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.

	Balance at 31-12-2017	Balance at 31-12-2016
<b>At cost</b>		
Goodwill of PRK	31,172	31,172
Goodwill of BPK Poznań	1,474	1,474
Impairment losses (BPK Poznań)	-1,474	-1,474
<b>Balance at the end of the reporting period</b>	<b>31,172</b>	<b>31,172</b>

### Annual goodwill impairment test

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 generating funds was measured at use 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 10%.

After it had considered external circumstances influencing a long-term market capitalization of the Company below the carrying amount, the Company carried out tests for the impairment of the Company's assets as at 31 December 2017.

The impairment tests carried out at 31 December 2017 according to IAS 36 *Impairment of Assets* revealed no risks to the loss of the carrying amount of the Company's assets.

### Sensitivity to changes in assumptions

If the useful value of an asset generating cash is estimated, the management personnel is convinced that no reasonably possible change to any key assumption will cause the carrying amount of the said asset to substantially exceed its recoverable value.

## 7.6. Investments in subordinates

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.

Company name	Core business	Registered office and principal place of business	Interests		Value at historical cost	
			Balance at 31-12-2017	Balance at 31-12-2016	Balance at 31-12-2017	Balance at 31-12-2016
Railway Technology International Sp. z o.o.	Holding activities	Cracow	51%	51%	118	118
<b>Total investments in subordinates</b>					<b>118</b>	<b>118</b>
Write-down of shares of RTI (cumulative)					118	118
<b>Total investments in subordinates net of write-downs</b>					<b>0</b>	<b>0</b>

## 7.7. Other financial assets

	Current assets	
	Balance at 31-12-2017	Balance at 31-12-2016
Debt financial instruments	0	54,935
Other	0	0



<b>Total</b>	<b>0</b>	<b>54,935</b>
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Debt financial instruments held by the Group at 31 December 2016 included corporate bonds sold in 2017.

### 7.8. Other assets

	<b>Current assets</b>	
	<b>Balance at 31-12-2017</b>	<b>Balance at 31-12-2016</b>
Prepayments	960	1,378
Other receivables	137	0
<b>Total</b>	<b>1,097</b>	<b>1,378</b>

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

### 7.9. Advanced loans

	<b>Balance at 31-12-2017</b>	<b>Balance at 31-12-2016</b>
Loans advanced to related entities	66	58
Loans advanced to other entities	279	289
Impairment losses	-335	-58
<b>Total</b>	<b>10</b>	<b>289</b>

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

### 7.10. Inventories

	<b>Balance at 31-12-2017</b>	<b>Balance at 31-12-2016</b>
Goods, materials and raw materials	27,405	10,330
Work in progress	334	759
Finished goods	199	198
<b>Total</b>	<b>27,938</b>	<b>11,287</b>

Inventories increased because they were gathered for the purpose of performing the new and the existing contracts. The purchase of strategic materials such as aggregate, sleepers, rails or railway switches is secured by the conclusion of long-term master agreements. The abovementioned materials are purchased to reduce the risk of price increase in times of decreased supply caused by the accumulation of railway works.

### 7.11. Other financial liabilities

	<b>Current</b>		<b>Non-current</b>	
	<b>Balance at 31-12-2017</b>	<b>Balance at 31-12-2016</b>	<b>Balance at 31-12-2017</b>	<b>Balance at 31-12-2016</b>
Financial liabilities to the State Treasury	280	280	350	630
Liabilities under dividends	36	37	0	0
<b>Total</b>	<b>316</b>	<b>317</b>	<b>350</b>	<b>630</b>

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

## 7.12. 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.

### Obligations under employee benefits recognised in the statement of financial position:

	As at 31-12-2017	As at 31-12-2016
<b>Pension and retirement gratuities, including:</b>	<b>990</b>	<b>851</b>
– present amount of obligation at the end of the reporting period	990	851
– 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
<b>Obligations to employees</b>	<b>1,001</b>	<b>1,094</b>
<b>Other employee benefits</b>	<b>17,419</b>	<b>17,847</b>
– provision for unused leaves	4,372	3,876
– provision for bonuses and overtime work	6,417	8,549
– salaries and wages	3,390	2,949
– social security and other benefits	3,240	2,473
<b>Total obligations under retirement and other benefits</b>	<b>19,410</b>	<b>19,792</b>
including:		
– long-term	1,888	1,864
– short-term	17,522	17,928

Obligations to employees include the amount of long-term obligation under the company social benefits fund.

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

	Balance at 31-12-2017	Balance at 31-12-2016
Discount rate	3.27%	3.41%
Expected future rise in wages and salaries	2.5%	2.5%

## Pension and retirement gratuities

	Balance at 31-12-2017	Balance at 31-12-2016
<b>Present amount of obligation at the beginning of the year</b>	<b>992</b>	<b>1,044</b>
Interest cost	28	24
Current service cost	88	71
Past service cost	0	119
Benefits paid	-235	-204
Actuarial (gains) / losses	117	-62
<b>Present amount of obligation at the end of the year</b>	<b>990</b>	<b>992</b>

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

	Balance at 31-12-2017	Balance at 31-12-2016
Current service cost	88	71
Interest cost	28	24
Actuarial (gains)/ losses recognised in the year	117	-62
Past service cost	0	116
<b>Costs recognised in statement of comprehensive income</b>	<b>233</b>	<b>149</b>
Amount recognised in profit or loss	114	211
Amount recognised in other comprehensive income (without deferred tax)	119	-62

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

## 7.13. 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 2017.

### Balance at 31 December 2017

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 (before discount)	0	0	14,774	0	14,070
Trade receivables	0	0	116,820	0	0
Receivables from the state budget other than corporate income tax	0	0	438	0	0
Other financial liabilities	0	0	0	0	666
Advanced loans	0	0	10	0	0
Cash and cash equivalents	0	117,748	0	0	0

Loans and bank credits and other financing sources	0	0	0	0	26,132
Trade payables	0	0	0	0	96,216
Payables to the state budget other than corporate income tax	0	0	0	0	16,965
<b>Total</b>	<b>0</b>	<b>117,748</b>	<b>132,042</b>	<b>0</b>	<b>154,049</b>

#### Balance at 31 December 2016

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 (before discount)	0	0	10,102	0	16,932
Trade receivables	0	0	70,476	0	0
Receivables from the state budget other than corporate income tax	0	0	6,332	0	0
Debt financial instruments – bank bonds	0	0	54,935	0	0
Other financial liabilities	0	0	0	0	947
Advanced loans	0	0	289	0	0
Cash and cash equivalents	0	62,717	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	23,086
Trade payables	0	0	0	0	58,089
Payables to the state budget other than corporate income tax	0	0	0	0	1,082
<b>Total</b>	<b>0</b>	<b>62,717</b>	<b>142,134</b>	<b>0</b>	<b>100,136</b>

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

#### Maturity profile of financial liabilities at fair value through profit or loss and at amortised cost (before discount)

	Balance at 31-12-2017	Balance at 31-12-2016
Age structure		
– less than 1 year	135,104	82,684
– 1 - 3 years	14,828	14,014
– 3 - 5 years	2,382	1,488
– 5 years +	1,735	1,950
<b>Total</b>	<b>154,049</b>	<b>100,136</b>

#### Derivative instruments

No derivative instrument transactions were entered into by the Group in 2017 or 2016.

## 7.14. Transactions with related entities

### Sales transactions

The following trade transactions were entered into between the related entities in the reporting period:

	Receivables		Payables	
	Balance at		Balance at	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

	Revenue		Purchases	
	Year ended		Year ended	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
RTI	3	3	0	0
RTI Germany	0	0	0	113
Wiesław Nowak	0	0	468	0
<b>Total</b>	<b>3</b>	<b>3</b>	<b>468</b>	<b>113</b>

	Advanced loans		Financial income (interest)	
	Balance at		Year ended	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
RTI	10	0	0	0
RTI Germany	56	58	1	0
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>66</b>	<b>58</b>	<b>1</b>	<b>0</b>

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

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

On 2 January 2017, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 1 thousand to be repaid by 31 March 2017. The loan was disbursed on 5 January 2017. The loan plus interest was repaid on 27 March 2017.

On 30 March 2017, ZUE and Mr. Wiesław Nowak entered into the agreement whereby a car was purchased by ZUE. Transaction value: PLN 468 thousand. The payment was made on 3 April 2017.

On 26 May 2017, ZUE and RTI signed the loan agreement whereby RTI was granted a special-purpose loan of PLN 5 thousand to be repaid by 20 December 2018. The loan was disbursed on 26 May 2017.

On 19 June 2017, ZUE and RTI Germany signed the annex no. 2 to the loan agreement of 31 May 2016 whereby the repayment date was extended to 20 June 2018.

On 7 December 2017, ZUE and RTI signed the loan agreement whereby RTI was granted a special-purpose loan of PLN 5 thousand to be repaid by 20 December 2018. The loan was disbursed on 7 December 2017.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the guarantees as at 31 December 2017 is PLN 20,421 thousand.

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

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 51,762 thousand; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 299 thousand and the total value of the proceedings concerning claims is PLN 51,463 thousand.

The pending court proceedings are related to the companies' operating activities.

#### 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. 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." 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 Contractual 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 Petitioner 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 Biadolino – 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 Biadolino – 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 Zabkowice - Jaworzno Szczakowa section." Information about the case conclusion.

The first instance District Court of Warsaw ruled that ZUE S.A. should be paid PLN 3,199,663.73 plus statutory interest from 2 December 2014 until the date of payment and dismissed the remaining claims. The ruling is final and binding.

## 7.16. Compensation of key management personnel

The remuneration of the Management Board members and other members of key management personnel in the financial year:

	Period	Remuneration	Period	Remuneration
<b>Management Board</b>				
Wiesław Nowak	01.2017-12.2017	1,190	01.2016-12.2016	1,074
Anna Mroczek	01.2017-12.2017	520	01.2016-12.2016	525
Jerzy Czeremuga	01.2017-12.2017	437	01.2016-12.2016	514
Maciej Nowak	01.2017-12.2017	518	01.2016-12.2016	514
Marcin Wiśniewski	01.2017-12.2017	462	01.2016-12.2016	543
<b>Proxies</b>				
Barbara Nowak	01.2017-5.06.2017	125	01.2016-12.2016	286
Magdalena Lis	6.06.2017-12.2017	132	01.2016-12.2016	n/a
<b>Supervisory Board</b>				
Mariusz Szubra	01.2017-12.2017	12	01.2016-12.2016	12
Magdalena Lis	01.2017-5.06.2017	94	01.2016-12.2016	148
Barbara Nowak	6.06.2017-12.2017	144	01.2016-12.2016	n/a
Bogusław Lipiński	01.2017-12.2017	49	01.2016-12.2016	181
Piotr Korzeniowski	01.2017-12.2017	12	01.2016-12.2016	12
Michał Lis	01.2017-12.2017	116	01.2016-12.2016	128
<b>Total</b>		<b>3,811</b>		<b>3,937</b>

The remuneration of the Management Board members is determined by the Supervisory Board and the remuneration of the 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 Ms. Barbara Nowak, 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 or other benefits to any former members of the supervisory and managing personnel or liabilities incurred in connection with the said retirement benefits.

## 7.17. 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. 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. 2/1 - KW PO1P/00114066/6.

#### **Lease arrangements**

The annual lease payment for the leasehold land in Cracow, 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 Cracow, district 4, marked as the plot no. 527/26 is PLN 95 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

	Year ended 31-12-2017	Year ended 31-12-2016
Minimum lease payments	366	314
<b>Total</b>	<b>366</b>	<b>314</b>

#### Liabilities under lease payments

	Balance at 31-12-2017	Balance at 31-12-2016
Not later than 1 year	366	314
Later than 1 year and not later than 5 years	1,464	1,257
Later than 5 years	24,516	21,365
<b>Total</b>	<b>26,346</b>	<b>22,936</b>

### 7.18. Contingent assets and contingent liabilities

#### Contingent assets

	Balance at 31-12-2017	Balance at 31-12-2016
Bonds	36,949	28,080
Guarantees	54	58
Bills of exchange	5,066	4,120
Mortgages	0	0
Pledges	0	0
<b>Total</b>	<b>42,069</b>	<b>32,258</b>

Contingent assets in the form of bonds and guarantees include the bonds provided by banks and insurance companies for the benefit of ZUE to secure the Company's claims relating to subcontracted construction services and the repayment of received advances. The supply of machines is secured by bills of exchange.

#### Contingent liabilities

	Balance at 31-12-2017	Balance at 31-12-2016
Bonds	485,785	203,078
Guarantees	17,044	15,709
Bills of exchange	339,382	128,319
Mortgages	54,259	201,018
Pledges	17,048	4,000
<b>Total</b>	<b>913,518</b>	<b>552,124</b>

Contingent liabilities in the form of bonds for the benefit of other entities include, in particular, bid bonds, performance bonds, defects liability bonds and advance payment bonds provided by insurance companies and banks to the Group's counterparties to secure their claims against the Group, mainly in connection with construction contracts and sales agreements. The insurance companies and the banks have recourse against the Group.

Contingent liabilities in the form of guarantees secure the bonds and credits provided to the Group companies and guaranteed by the Parent Company.

The liabilities to banks and strategic clients are secured by bills of exchange.

Mortgages are additional security for the credit agreements with mBank SA and the insurance agreement with PZU SA.

Following the conclusion on 10 April 2017 of an annex to the financing agreement of 10 December 2015 between ZUE and BGŻ BNP Paribas S.A. whereby the security in the form of mortgage was replaced with a deposit, the mortgage was removed on 30 May 2017.

Registered pledges were established in connection with annexes to agreements with BGŻ BNP PARIBAS and PEKAO whereby limits had been raised. The pledged assets include wagons, pile driver and maintenance train.

## 8. Other notes to the financial statements

### 8.1. Use of International Financial Reporting Standards

#### 8.1.1. Statement of compliance

The consolidated financial statements of the Capital Group for the year ended 31 December 2017 and the comparative information for the financial year ended 31 December 2016 have been drawn up in accordance with the requirements of the International Financial Reporting Standards as endorsed by the European Union (EU).

#### 8.1.2. Standards and interpretations used for the first time in the reporting period

The following amendments to the existing standards published by the International Accounting Standards Board (IASB) and approved for use in the European Union come into force in 2017:

- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative – approved of in the EU on 6 November 2017 (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 – approved of in the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);
- **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 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018).

The foregoing amendments to the existing standards did not have any material influence on the financial statements for 2017.

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

When approving these financial statements, the Group did not use the following standards or amendments which had been published and approved for use in the EU but had not come into force:

- **IFRS 9 "Financial Instruments"** (published on 24 July 2014) – effective for annual periods beginning on or after 1 January 2018;
- **IFRS 15 "Revenue from Contracts with Customers"** (published on 28 May 2014) including amendments to IFRS 15, Effective date of IFRS 15 (published on 11 September 2015) – effective for annual periods beginning on or after 1 January 2018;
- **IFRS 16 "Leases"** (published on 13 January 2016) – effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IFRS 4 Use of IFRS 9 "Financial Instruments" in conjunction with IFRS 4 "Insurance Contracts"** (published on 12 September 2016) – effective for annual periods beginning on or after 1 January 2018;

- **Explanations to IFRS 15 "Revenue from Contracts with Customers"** (published on 12 April 2016) – effective for annual periods beginning on or after 1 January 2018;
- **Amendments to IFRS 2 "Share-based Payment"** (published on 20 June 2016) – effective for annual periods beginning on or after 1 January 2018;
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** as part of changes following from the review of IFRS 2014-2016 (published on 8 December 2016) – effective for annual periods beginning on or after 1 January 2018;
- **Amendments to IFRS 1 Use of International Financial Reporting Standards for the first time** as part of changes following from the review of IFRS 2014-2016 (published on 8 December 2016) – effective for annual periods beginning on or after 1 January 2018;
- **Amendments to IAS 40: "Transfers of Investment Property"** (published on 8 December 2016) – effective for annual periods beginning on or after 1 January 2018.

The Group decided not to use earlier the foregoing new standards or amendments to the existing standards. The influence of IFRS 9, IFRS 15 and IFRS 16 is discussed in section 8.1.5.

#### 8.1.4. 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) excluding the following standards, amendments to the standards and interpretations not yet approved for use as at 16 March 2018:

- **IFRS 14 "Regulatory Deferral Accounts"** (published on 30 January 2014) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard – effective for annual periods beginning on or after 1 January 2016;
- **Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"** (published on 11 September 2014) – the endorsement process for these amendments has been postponed by the EU indefinitely – the effective date has been deferred by the IASB indefinitely;
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (published on 8 December 2016) – effective for annual periods beginning on or after 1 January 2018;
- **IFRS 17 "Insurance Contracts"** (published on 18 May 2017) – effective for annual periods beginning on or after 1 January 2021;
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (published on 7 June 2017) – effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IFRS 9 "Prepayment Features with Negative Compensation"** (published on 12 October 2017) – effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"** (published on 12 October 2017) – effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IFRS 2015-2017** (published on 12 December 2017) – effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"** (published on 7 February 2018) – effective for annual periods beginning on or after 1 January 2019.

#### 8.1.5. Impact of the new standards on the Group's financial statements

##### Impact of IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 became effective on 1 January 2018 and superseded IAS 11 "Construction Contracts" and IFRS 18 "Revenue." The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of goods or services to customers (contracting authorities) in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

A five-step model is applied under IFRS 15 to the recognition of revenue:

1. Identification of the contract with a customer.
2. Identification of performance obligations.
3. Determination of transaction price.
4. Allocation of the price to the performance obligations.
5. Recognition of revenue.

The Group has analysed the provisions of contracts with customers (construction contracts) to identify differences following from the implementation of IFRS 15 and recognition of revenue according to the foregoing five-step model.

The analysis has not revealed any material influence of the implementation of IFRS 15 on the financial statements and the Group does not intend to make any adjustments in connection with the said implementation. The standard is being analysed by the Group in detail.

The Group has updated the accounting principles governing the recognition of revenue to adapt them to the terminology used within IFRS 15 and it will modify the disclosures to meet the requirements of the standard.

From 1 January 2018, the Group will recognise revenue from unfinished construction service according to the five-step model and it will use an input method in compliance with a modified retrospective approach. The Management Board believe that the input method is the most appropriate method to determine revenue from long-term contracts. An output method requires additional controlling tools and as such it may be more difficult to use.

### **Impact of IFRS 16 "Leases"**

The International Financial Reporting Standard 16 Leases (IFRS 16) was published by the International Accounting Standards Board (IASB) in January 2016 and superseded IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Forms of a Lease. IFRS 16 establishes principles for the measurement, presentation and disclosure of leases.

MSSF 16 provides a single lessee accounting model requiring lessees to recognise assets and liabilities for all leases with a lease term exceeding 12 months, unless the underlying asset has a low value. At the commencement date, a lessee recognises the right-of-use asset and a lease liability reflecting their obligation to make lease payments. Depreciation of lease assets and interest expense are recognised separately by a lessee.

A lessee updates the measurement of lease liabilities after specific events occur (e.g. a change in the term of lease, change in future lease payments reflecting changes in an index or rate used to calculate such payments). As a rule, a lessee recognises the revaluation of lease liability as an adjustment to the value of right-of-use assets.

IFRS 16 requires both lessors and lessees to provide more extensive disclosures than required under IAS 17. A lessee may decide whether to pursue a full or modified retrospective approach and transitional provisions provide for certain practical solutions.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities which apply IFRS 15 from or before the date of first application of IFRS 16. The Group has not elected the early application of IFRS 16.

Operating lease arrangements and long-term lease of cars should be reviewed to determine the direction and estimate the potential influence of IFRS 16 on future financial statements.

The Group presented operating lease arrangements as finance lease because the requirements stipulated in IAS 17.7 had been met.

At the date of approval of these financial statements, the Management Board are assessing the influence of IFRS 16 on the Group's accounting principles in the context of the Group's operation or financial performance.

### **Impact of IFRS 9 "Financial Instruments"**

IFRS 9 "Financial Instruments" is effective for annual periods beginning on or after 1 January 2018 with early application permitted.

IFRS 9 includes the three aspects dealing with financial instruments, namely classification and measurement, impairment and hedging.

IFRS 9 has two measurement categories for financial assets; i.e. amortised cost and fair value. Most of the requirements concerning the classification and measurement of financial liabilities stipulated in IAS 39 have been carried over unchanged to IFRS 9.

IFRS 9 introduces a new model of recognising write-downs – an expected credit loss model. The Group has analysed the influence of application of an expected loss model to the assessment of credit risk for receivables as at 31 December 2017 and for historical data. The analysis has shown that the influence on the financial statements would be insignificant.

The Group has not elected the early application of IFRS 9 and intends to implement the standard for the reporting period beginning on 1 January 2018.

## **8.2. Important accounting principles**

### **8.2.1. 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.

### **8.2.2. Comparability of financial data**

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

### **8.2.3. 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.

### **8.2.4. 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.

### 8.2.5. 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

### 8.2.6. Measurement of revenue under long-term construction contracts

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).

### 8.2.7. 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.

### 8.2.8. 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.

#### **8.2.9. Employee benefits**

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

Costs of wages and salaries include the wages and salaries under employment contracts entered into with individual employees. Costs of wages and salaries also include bonuses and incentive rewards paid 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.

#### **8.2.10. Income tax (including deferred tax)**

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

##### **Current tax**

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

The Company presents deferred tax assets and liabilities according to their netted balance (IAS 12).



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.

#### 8.2.11. Property, plant and equipment

Property, plant and equipment include non-current assets and expenditures on non-current assets under construction the entity intends to use in its operation and for administrative purposes for more than 1 year from which future economic benefits are expected to flow to the entity. Expenditure on non-current assets includes capital expenditure and expenses incurred in connection with future deliveries of plant and equipment and services related to the production of non-current assets (prepayments). Non-current assets also include essential specialist spare parts, which function as elements of non-current assets.

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

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

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 8.2.14. 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.

#### 8.2.12. 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 8.2.18.

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.

### 8.2.13. 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 8.2.14. 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.

### 8.2.14. 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.

### 8.2.15. 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.

#### **8.2.16. Leasing**

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

Assets held under a finance lease are recognised as assets of the 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 8.2.8.

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.

#### **8.2.17. Inventories**

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

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

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

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

Inventory disbursement is recorded in accordance with the principles of specific identification and is recognised in cost of sales. Write-downs for inventories resulting from prudent valuation and write-downs for items in excess of anticipated demand are recognised in other operating expenses. Reversal of write-downs is recognised in other operating income.

#### **8.2.18. Non-current assets held for sale**

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

- An appropriate level of management must be committed to sell the asset;
- Assets are available for immediate sale in their present condition;
- An active programme to locate a buyer must have been initiated;
- The completion of the sale is highly probable within 12 months of classification as held for sale;
- Sales price is reasonable in relation to its present fair value; and
- 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.

### 8.2.19. Financial assets

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

#### Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the short term; or
- It is part of a portfolio of identified financial instruments that the 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.

### **8.2.20. 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 financial liabilities measured at amortised cost.

#### **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 measured at amortised cost**

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 assets**

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

#### **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.

#### **8.2.21. 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.

#### **8.2.22. Onerous contracts**

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

#### **8.2.23. Derivative instruments**

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

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

### **8.3. 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.

#### **8.3.1. 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.

#### **8.3.2. Useful economic lives of non-current assets**

As set out in items 3.2.11 and 8.2.14, the company verifies useful economic lives of property, plant and equipment and intangible assets at the end of each annual reporting period.

#### **8.3.3. 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.

#### **8.3.4. 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.

#### **8.3.5. 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.

#### **8.3.6. Construction contracts accounted for using percentage-of-completion method**

Revenues from a construction service that has not been completed are recognised by the Group 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.

#### **8.3.7. Deferred tax assets**

The company's management board decide about the recognition of deferred tax assets based on the forecasts for subsequent years.

### **9. Events after the end of the reporting period**

On 14 February 2018, the Company learnt about the conclusion by the other party of the construction agreement (the "Agreement") between the Company and the consortium of FIMA Polska sp. z o.o. of Warsaw and UAB FIMA of Vilnius (the "Subcontractor"). The Agreement dealt with the construction works performed by the Subcontractor on the Trzebinia - Oświęcim section (the "Contract"). The Company informed about the Contract in the current report 63/2017 of 2 October 2017. The Agreement net value was PLN 29.5m. The Agreement completion date was the same as the Contract completion date. **(Current report 2/2018)**

On 15 February 2018, the Company published preliminary financial results for 2017. **(Current report 3/2018)**

On 15 March 2018, the Company's Supervisory Board passed a resolution concerning the cooperation with the auditor. **(Current report 4/2018)**

### **10. Approval of the financial statements**

The financial statements were approved by the Management Board on 16 March 2018.



## STATEMENT OF THE MANAGEMENT BOARD OF ZUE ON THE 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 2017 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 the Capital Group for the year 2017 contains a true view of the Group's development and achievements, including the description of fundamental risks and threats.

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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, 16 March 2018

**The financial statements have been prepared by:**

**Signatures of the management personnel:**

**Marcin Wiśniewski** Management Board Vice-President

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