



FINANCIAL STATEMENTS OF ZUE S.A.

FOR THE YEAR ENDED 31 DECEMBER 2017

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

Cracow, 16 March 2018

CONTENTS

Selected financial data of ZUE S.A.....	5
Statement of comprehensive income	6
Statement of financial position.....	7
Statement of cash flows.....	10
Notes to the financial statements prepared as at 31 December 2017	11
1. General information.....	11
1.1. Information about the Company	11
1.2. Activities of the Company.....	11
1.3. Functional and reporting currency	12
2. Notes to the statement of comprehensive income.....	12
2.1. Revenue	12
2.2. Operating expenses	14
2.3. Other operating income.....	15
2.4. Other operating expenses	15
2.5. Financial income	15
2.6. Financial expenses	16
2.7. Corporate income tax.....	16
3. Contracts, retentions and provisions.....	19
3.1. Construction contracts.....	19
3.2. Retentions on construction contracts.....	19
Discount recognised in profit or loss.....	20
3.3. Provisions	20
4. Trade and other receivables and payables	21
4.1. Trade and other receivables.....	21
4.2. Trade and other payables	22
5. Equity	22
5.1. Share capital	22
5.2. Profit (loss) per share.....	24
5.3. Share premium account	24
5.4. Treasury shares	25
5.5. Retained earnings	25
6. Debt and management of capital and liquidity	25
6.1. Loans and bank credits and other financing sources	26
6.2. Capital management	28
6.3. Non-cash transactions and financing sources	29
6.4. Financial risk management.....	29
6.5. Cash and cash equivalents	33
7. Other notes to the financial statements	34
7.1. Property, plant and equipment	34
7.2. Investment property	36
7.3. Non-current assets held for sale.....	38
7.4. Intangible assets	38
7.5. Goodwill	38
7.6. Investments in subordinates.....	39
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. Other liabilities	41
7.13. Obligations under retirement and other benefits	42
7.14. Financial instruments	43
7.15. Transactions with related entities	45
7.16. Proceedings before court, arbitration or public administration authority at the date of preparation of this report	46
7.17. Compensation of key management personnel.....	47
7.18. Information about dividend	47
7.19. Operating lease arrangements	47
7.20. Contingent assets and contingent liabilities	48
8. Other notes to the financial statements	49

8.1.	Use of International Financial Reporting Standards	49
8.2.	Important accounting principles	52
8.3.	Key sources of estimation uncertainty	61
9.	Events after the end of the reporting period.....	62
10.	Approval of the financial statements.....	62
STATEMENT OF THE MANAGEMENT BOARD OF ZUE ON THE COMPLIANCE OF ANNUAL FINANCIAL STATEMENTS WITH APPLICABLE ACCOUNTING PRINCIPLES		64

Abbreviations and definitions:

ZUE, Company, Issuer	<p>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.</p> <p>Parent company of the ZUE Capital Group.</p>
BPK Poznań	<p>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.</p> <p>Subsidiary of ZUE.</p>
Railway gft	<p>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.</p> <p>Subsidiary of ZUE.</p>
RTI	<p>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.</p> <p>Subsidiary of ZUE.</p>
RTI Germany	<p>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.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
ZUE Group, Group, Capital Group	<p>ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.</p>
PLN	<p>Polish złoty.</p>
EUR	<p>Euro.</p>
Act	<p>Polish Companies Act (Journal of Laws 2017, item 1577).</p>

Share capital details as at 31 December 2017.

Selected financial data of ZUE S.A.

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	158,317	37,958	143,469	32,430
Current assets	316,965	75,994	200,863	45,403
Total assets	475,282	113,952	344,332	77,833
Equity	210,366	50,437	209,623	47,383
Non-current liabilities	23,837	5,715	24,518	5,542
Current liabilities	241,079	57,800	110,191	24,908
Total equity and liabilities	475,282	113,952	344,332	77,833

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

	Period ended 31-12-2017		Period ended 31-12-2016	
	PLN '000	EUR '000	PLN '000	EUR '000
Revenue	408,487	96,235	311,086	71,094
Cost of sales	392,796	92,538	297,235	67,929
Gross profit (loss) on sales	15,691	3,697	13,851	3,165
Operating profit (loss)	1,521	358	743	170
Gross profit (loss)	1,504	354	2,328	532
Net profit (loss) from continuing operations	839	198	1,480	338
Total comprehensive income	743	175	1,525	349

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	16,069	3,786	-33,820	-7,729
Cash flows from investing activities	34,495	8,127	-64,097	-14,648
Cash flows from financing activities	4,765	1,123	-11,355	-2,595
Total net cash flows	55,329	13,036	-109,272	-24,972
Cash at the beginning of the year	61,207	13,835	169,795	39,844
Cash at the end of the year	116,144	27,846	61,207	13,835

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	Exchange rate on 31-12-2017	Exchange rate on 31-12-2016	Exchange rate on 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

Statement of comprehensive income

	Note no.	12 months ended	12 months ended
		31-12-2017	31-12-2016
Continuing operations			
Revenue	2.1	408,487	311,086
Cost of sales	2.2	392,796	297,235
Gross profit (loss)		15,691	13,851
General and administrative expenses	2.2	16,001	16,323
Other operating income	2.3	5,201	4,973
Other operating expenses	2.4	3,370	1,758
Operating profit (loss)		1,521	743
Financial income	2.5	2,253	2,665
Financial expenses	2.6	2,270	1,080
Pre-tax profit (loss)		1,504	2,328
Corporate income tax	2.7	665	848
Net profit (loss) from continuing operations		839	1,480
Net profit (loss)	5.5	839	1,480
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		-96	45
Actuarial gains (losses) relating to specific benefit schemes	7.13	-96	45
Other total net comprehensive income		-96	45
Total comprehensive income		743	1,525
Number of shares		23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)	5.2	0.04	0.06
Total comprehensive income per share (PLN)		0.03	0.07

Statement of financial position

	Note no.	Balance at 31-12-2017	Balance at 31-12-2016
ASSETS			
Non-current assets			
Property, plant and equipment	7.1	92,004	80,335
Investment property	7.2	9,095	7,349
Intangible assets	7.4	8,594	9,119
Goodwill	7.5	31,172	31,172
Investments in subordinates	7.6	210	210
Retentions on construction contracts	3.2	9,439	6,819
Deferred tax assets	2.7	7,803	8,465
Total non-current assets		158,317	143,469
Current assets			
Inventories	7.10	24,239	6,196
Trade and other receivables	4.1	171,270	74,937
Retentions on construction contracts	3.2	4,393	2,101
Current tax assets	2.7	0	0
Other financial assets	7.7	0	54,935
Other assets	7.8	909	1,198
Loans advanced	7.9	10	289
Cash and cash equivalents	6.5	116,144	61,207
Total current assets		316,965	200,863
Total assets		475,282	344,332

	Note no.	Balance at 31-12-2017	Balance at 31-12-2016
EQUITY AND LIABILITIES			
Equity			
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	113,461	112,718
Total equity		210,366	209,623
Non-current liabilities			
Long-term loans and bank credits and other financing sources	6.1	11,205	8,875
Retentions on construction contracts	3.2	5,755	6,717
Liabilities under employee benefits	7.13	856	740
Long-term provisions	3.3	5,671	7,556
Other liabilities	7.12	350	630
Total non-current liabilities		23,837	24,518
Current liabilities			
Trade and other payables	4.2	206,425	74,740
Retentions on construction contracts	3.2	6,663	9,117
Short-term loans and bank credits and other financing sources	6.1	8,773	5,765
Other financial liabilities	7.11	36	37
Liabilities under employee benefits	7.13	16,184	16,562
Current tax liabilities	2.7	0	0
Short-term provisions	3.3	2,998	3,970
Total current liabilities		241,079	110,191
Total liabilities		264,916	134,709
Total equity and liabilities		475,282	344,332

	Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at 1 Jan 2017	5,758	93,837	-2,690	112,718	209,623
Payment of dividend	0	0	0	0	0
Issue of shares	0	0	0	0	0
Issue costs	0	0	0	0	0
Buy-back of shares	0	0	0	0	0
Profit (loss)	0	0	0	839	839
Other net comprehensive income	0	0	0	-96	-96
Balance at 31 Dec 2017	5,758	93,837	-2,690	113,461	210,366

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

Statement of cash flows

	Year ended 31-12-2017	Year ended 31-12-2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	1,504	2,328
Adjustments for:		
Depreciation and amortisation	9,753	9,222
Foreign exchange gains / (losses)	392	-684
Interest and share in profit (dividends)	624	-823
(Gain) / loss on disposal of investments including release of investment property write-down	-2,369	-161
Gain / (loss) on redemption of debt instruments	-302	0
Operating profit before changes in working capital	9,602	9,882
Change in receivables and retentions on construction contracts	-101,093	-4,115
Change in inventories	-18,043	12,171
Change in provisions and liabilities under employee benefits	-3,236	-13,515
Change in retentions on construction contracts and liabilities, excluding loans and bank credits and other financing sources	128,530	-40,970
Change in accrued expenses	289	-137
Income tax paid / tax refund	20	2,864
NET CASH FROM OPERATING ACTIVITIES	16,069	-33,820
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	381	517
Purchase of property, plant and equipment and intangible assets	-21,330	-10,982
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	217	1,557
Gain / (loss) on redemption of debt instruments	309	0
NET CASH FROM INVESTING ACTIVITIES	34,495	-64,097
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	15,282	3,790
Repayment of loans and bank credits	0	0
Decrease in finance lease liabilities and liabilities relating to financing of property, plant and equipment	-9,944	-7,192
Interest paid	-572	-440
Other cash provided by / (used in) financing activities – dividends	-1	-7,513
NET CASH FLOWS FROM FINANCING ACTIVITIES	4,765	-11,355
TOTAL NET CASH FLOWS	55,329	-109,272
Net foreign exchange gains / (losses)	-392	684
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	61,207	169,795
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	116,144	61,207

Notes to the financial statements prepared as at 31 December 2017

1. General information

1.1. Information about the Company

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.

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. Activities of the Company

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

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

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

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

1.3. Functional and reporting currency

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

2. Notes to the statement of comprehensive income

2.1. Revenue

	Year ended 31-12-2017	Year ended 31-12-2016
Revenue from construction contracts	393,282	276,023
Revenue from the rendering of services	11,816	7,338
Revenue from the sale of goods and raw materials	3,389	27,725
Total	408,487	311,086

The Company 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 Company presents the entire revenue in one reporting segment: engineering construction and assembly services.

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 Company's revenue generated in 2017 was PLN 408,487 thousand. The Company's revenue increased by 31% compared to the revenue reported in 2016 and by PLN 196 207 thousand when compared with the analogous figure reported at the end of the third quarter of 2017. In the fourth quarter of 2017, the Company generated 48% of annual revenue. In the second half of 2017, it generated 75% 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)	30,383	69,712	112,185	196,207
% - quarter	7%	17%	27%	48%
% - half year	25%		75%	

Concentration of revenue that exceeds 10% of total revenue

	Balance at 31-12-2017
Counterparty A	167,671
Counterparty B	77,701
Counterparty C	52,282
Total	297,654

2.2. Operating expenses

	Year ended 31-12-2017	Year ended 31-12-2016
Change in products	426	821
Depreciation and amortization	9,753	9,222
Consumption of raw and other materials	202,529	83,057
Contracted services	114,031	128,695
Costs of employee benefits	61,943	57,584
Taxes and charges	1,600	1,619
Other expenses	16,755	6,710
Value of goods and materials sold	1,760	25,850
Total	408,797	313,558

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	392,796	297,235
General and administrative expenses	16,001	16,323
Total	408,797	313,558

ZUE's general and administrative expenses between 1 January and 31 December 2017 stood at PLN 16,001 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 321 thousand.

Depreciation and amortisation

	Year ended 31-12-2017	Year ended 31-12-2016
Depreciation of property, plant and equipment	8,755	8,133
Amortisation of intangible assets	533	616
Depreciation of investments in real property	465	473
Total	9,753	9,222

2.3. Other operating income

	Year ended 31-12-2017	Year ended 31-12-2016
Gain on disposal of assets	169	161
Gain on disposal of non-current assets	169	161
Other operating income	5,032	4,812
Re-invoicing of bonds and insurance policies	928	255
Damages and penalties	1,125	386
Release of write-downs of receivables	501	1,966
Refund of costs of court proceedings	64	40
Release of provisions for court proceedings	0	1,567
Release of allowances for inventories	22	185
Release of investment property impairment loss	2,200	0
Other	192	413
Total	5,201	4,973

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

2.4. Other operating expenses

	Year ended 31-12-2017	Year ended 31-12-2016
Loss on disposal of assets	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses	3,370	1,758
Donations	17	63
Damages and penalties	881	158
Costs of litigations	266	284
Re-invoicing of bonds and insurance policies	928	255
Write-downs of receivables	1,225	696
Other	53	302
Total	3,370	1,758

Write-downs of PLN 1,225 thousand were recognised by the Company in the reporting period including the write-down recognised in connection with an invoice for additional works issued by PKP PLK enforced before the court.

2.5. Financial income

	Year ended 31-12-2017	Year ended 31-12-2016
Interest income	1,339	1,546
Interest on bank deposits	218	1,430
Interest on loans	8	3
Interest on receivables	1,113	113
Other financial income	914	1,119
Foreign exchange gains	0	768
Discount of long-term items	209	150
Realisation of financial instruments	309	0
Guarantees	392	201
Other	4	0
Total	2,253	2,665

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

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

The decrease in interest on bank deposits 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.

2.6. Financial expenses

	Year ended 31-12-2017	Year ended 31-12-2016
Interest expenses	797	446
Interest on finance lease liabilities and liabilities relating to financing of property, plant and equipment	572	440
Interest on trade and other payables	225	6
Other financial expenses	1,473	634
Foreign exchange losses	575	0
Discount of long-term items	537	431
Allowance for investments in subordinates	0	118
Other	361	85
Total	2,270	1,080

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	1,090
Deferred tax	685	-242
Total tax expense/income	665	848

The tax currently payable is calculated pursuant to applicable tax laws. According to these laws, taxable profit (loss) differs from accounting net profit (loss) because it excludes items of income or expense that are not taxable or deductible and items of income or expense that are never taxable. The Company's tax liability is calculated using tax rates applicable during the fiscal year in question.

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

Current income tax

	Year ended 31-12-2017	Year ended 31-12-2016
Gross profit (loss)	1,504	2,328
Difference between gross profit (loss) and income tax base:	-1,504	-43,750
- 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	-365	-43,750
- other differences (including loss brought forward)	-1,139	0
Income/loss	0	-41,422
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	112
Current income tax	-20	1,090

Current tax assets and liabilities

	Balance at 31-12-2017	Balance at 31-12-2016
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	0	0

Deferred tax balance

	Year ended 31-12-2017	Year ended 31-12-2016
Deferred tax balance at the beginning of the year	8,465	8,233
Temporary differences relating to deferred tax assets:	22,091	13,642
Provisions for expenses and accruals	9,423	8,322
Discount of receivables	371	269
Liabilities under leases	112	314
Write-downs	1,156	1,401
Bonds and insurance settled over time	2,109	443
Other	335	500
Tax work in progress	8,585	2,393
Temporary differences relating to deferred tax liabilities:	21,942	13,047
Valuation of long-term contracts	12,450	3,317
Property, plant and equipment and intangible assets	9,104	9,333
Discount of payables	370	330
Other	18	67
Unused tax losses and other tax credits:	7,654	7,870
Tax losses	7,654	7,870
Tax credits	0	0
Other	0	0
Total temporary differences relating to deferred tax assets:	29,745	21,512
Total temporary differences relating to deferred tax liabilities:	21,942	13,047
Deferred tax balance at the end of the year	7,803	8,465
Change in deferred tax, including:	-662	232
- recognised in income	-685	242
- 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.

3. Contracts, retentions and provisions

3.1. Construction contracts

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

Selected items

	Balance at 31-12-2017	Balance at 31-12-2016
Revenue from long-term construction contracts	365,760	251,545
Costs of long-term construction contracts	359,477	241,876
Gross profit (loss) on long-term contracts	6,283	9,669
Revenue from long-term construction contracts (cumulative)	509,228	372,108
Costs of long-term construction contracts (cumulative)	498,017	371,529
Gross profit (loss) on long-term contracts (cumulative)*	11,211	579
Assets (selected items)	90,919	28,943
- Valuation of contracts	65,524	17,460
- Advance payments for contracts	11,563	2,563
- Retentions on construction contracts retained by customers	13,832	8,920
Liabilities (selected items)	125,425	47,575
- Valuation of contracts	475	1,413
- Provisions for contract costs	28,737	18,802
- Advance payments for contracts	75,126	0
- Retentions on construction contracts retained for suppliers	12,418	15,834
- Provisions for warranty claims	8,252	10,777
- Provisions on expected losses on contracts	417	749

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

3.2. Retentions on construction contracts

	Balance at 31-12-2017	Balance at 31-12-2016
Retained by customers – to be repaid after 12 months	9,439	6,819
Retained by customers – to be repaid within 12 months	4,393	2,101
Total retentions on construction contracts retained by customers	13,832	8,920
Retained for suppliers – to be repaid after 12 months	5,755	6,717
Retained for suppliers – to be repaid within 12 months	6,663	9,117
Total retentions on construction contracts retained for suppliers	12,418	15,834

The construction contracts and work-for-hire contracts entered into by ZUE 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	335	539
Discount of long-term retentions on construction contracts retained for suppliers	942	945
Adjustment of financial income	0	0
Adjustment of financial expenses	328	280
Deferred tax on above adjustments	62	53
Net effect on profit or loss	-266	-227

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

	Balance at 31-12-2017	Balance at 31-12-2016
Past due retentions on construction contracts:		
– 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	292
Total past due retentions on construction contracts (gross)	293	295
Write-downs	-293	-295
Total past due retentions on construction contracts (net)	0	0

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
Long-term provisions:	8,296	1,846	128	59	-3,428	6,527	
Provisions for employee benefits	740	116	0	0	0	856	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,556	1,730	128	59	-3,428	5,671	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	15,656	17,431	11,930	11,468	3,428	13,117	
Provisions for employee benefits	11,686	12,832	11,251	3,148	0	10,119	Liabilities under employee benefits (short-term)
Provisions for warranty claims	3,221	291	679	3,680	3,428	2,581	Short-term provisions
Provision for loss on contracts	749	4,308	0	4,640	0	417	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	23,952	19,277	12,058	11,527	0	19,644	

Provision for warranty claims is created for the construction contracts in respect of which warranty has been given by the Company depending on the amount of revenues. The amount of provisions may decrease or increase on the basis of inspections of construction works carried out in subsequent years of warranty. 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	103,145	65,107
Write-downs of trade receivables	-13,280	-14,699
Receivables from the state budget other than corporate income tax	0	4,251
Receivables under contracts (valuation)	65,524	17,460
Advance payments	11,563	2,563
Other receivables	4,318	255
Total trade and other receivables	171,270	74,937

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

Ageing analysis of receivables that are past due but not impaired

	Balance at 31-12-2017	Balance at 31-12-2016
Not past due receivables	70,893	43,942
Receivables that are past due but not impaired	18,972	6,466
1-30 days	17,540	4,267
31-60 days	198	240
61-90 days	58	492
91-180 days	0	48
181-360 days	1	154
360 + days	1,175	1,265
Past due receivables on which write-downs were recognized	13,280	14,699
1-30 days	128	9
31-60 days	392	6
61-90 days	167	0
91-180 days	67	2,010
181-360 days	926	725
360 + days	11,600	11,949
Total trade receivables (gross)	103,145	65,107
Write-downs of trade receivables	-13,280	-14,699

Total trade receivables (net)	89,865	50,408
--------------------------------------	---------------	---------------

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

	Balance at 31-12-2017
Counterparty A	62,642
Total	62,642

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 Company 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	86,200	53,329
Liabilities to the state budget other than corporate income tax	15,538	837
Accruals	28,944	19,060
Liabilities under contracts (valuation)	475	1,413
Other payables	142	101
Advance payments	75,126	0
Total trade and other payables	206,425	74,740

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
Not past due payables	71,695	50,937
Past due payables	14,505	2,392
1-30 days	14,367	2,138
31-60 days	1	57
61-90 days	0	9
91-180 days	0	1
181-360 days	41	4
360 + days	96	183
Total trade payables	86,200	53,329

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
Total		23,030,083	5,757,520.75		

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	0.04	0.06
Diluted profit (loss) per share	0.04	0.06

Basic profit per share

Profit (loss) 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	0.04	0.06
Total profit (loss) used in the calculation of basic profit per share	839,388.29	1,479,694.72
Weighted average number of ordinary shares used in the calculation of profit (loss) per share	23,030,083	23,030,083

Diluted profit (loss) per share

There are no diluting instruments.

5.3. Share premium account

	Year ended 31-12-2017	Year ended 31-12-2016
Balance at the beginning of the year	93,837	93,837
Share issue	0	0
Issue costs	0	0
Balance at the end of the year	93,837	93,837

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

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

In 2013, the Company launched a new issue of class C shares. The agio generated by the Company on 6 December 2013 was PLN 9,023.5 thousand. The costs of class C shares issue in 2013 amounted to PLN 547.5 thousand. The Company did not launch any new issue of shares in 2014-2017.

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

	Year ended 31-12-2017	Year ended 31-12-2016
Balance at the beginning of the year	112,718	118,706
Net profit distribution	1,480	15,337
Reserve funds	1,480	15,337
Capital reserve	0	0
Loss brought forward	0	0
Profit (loss) for the current year	839	1,480
Other net comprehensive income	-96	45
Payment of dividend for the previous year	0	-7,513
Balance at the end of the year	113,461	112,718

Balance of retained earnings at the end of 2017:

	Year ended 31-12-2017
Reserve funds (without share premium account)	54,798
Capital reserve	39,435
Capital reserve related to comprehensive income	-165
Undistributed profit (loss) brought forward	-1,021
Profit (loss) brought forward related to revaluation capital	2,226
Profit (loss) for the current year	839
Consequences of implementation of IFRS at ZUE	451
Revaluation capital	16,898
	113,461

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

In 2017, the Company continued to finance its investments with finance lease or leaseback and adjusted the term of liabilities thereunder to its order book. ZUE did not use any credits despite available credit lines. The main task of financial officers was to obtain the new bond lines to secure tender procedures, proper performance of contracts and the term of warranty and guarantee.

6.1. Loans and bank credits and other financing sources

	Balance at 31-12-2017	Balance at 31-12-2016
Long-term	11,205	8,875
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	7,714	3,292
Finance lease liabilities	3,491	5,583
Short-term	8,773	5,765
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	6,680	3,554
Finance lease liabilities	2,093	2,211
Total	19,978	14,640

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	2,234	2,420	2,093	2,211
Later than one year and not later than five years	3,591	5,825	3,491	5,583
Later than five years	0	0	0	0
Less: future finance charges	-241	-451	0	0
Present value of minimum lease payments	5,584	7,794	5,584	7,794
Leases presented in the financial statements as:				
Short-term loans and bank credits and other financing sources			2,093	2,211
Long-term loans and bank credits and other financing sources			3,491	5,583

General terms of finance lease and leaseback

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

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

The Company 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 Company 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 Company's side throughout the lease term. According to the Company, 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

Balance at 31 December 2017

Bank	Description	Principal/limit according to the agreement	Use as at 31.12.2017	Interest	Repayment date
Overdrafts					
mBank S.A.	Overdraft	5,000	0	O/N WIBOR for interbank credits + margin	11-05-2018
Other credits					
mBank S.A. (ii)	Cooperation agreement	50,000	2,500	3M WIBOR + margin	17-07-2020
	including:				
	sublimit for bonds	50,000	2,500		
	sublimit for working credit facilities	30,000	0		
BGŻ BNP PARIBAS (iv)	Multipurpose credit line agreement	170,000	71,553	1M WIBOR + margin	26-10-2018
	including:				
	sublimit for bonds	170,000	71,553		
	sublimit for working credit facilities	20,000	0		
PEKAO SA (i) (iii)	Multipurpose credit limit agreement	100,000	16,810	1M WIBOR + margin	30-11-2018
	including:				
	sublimit for bonds	100,000	16,810		
	sublimit for working credit facilities	20,000	0		
Total use of credits			0		
Total use of bonds			90,863		

(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.

Liabilities under credit agreements:

- Overdraft** – security: bill of exchange;
- Cooperation agreement** – security: mortgage, cash deposit;
- 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;
- 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.

6.2. Capital management

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

	Balance at 31-12-2017	Balance at 31-12-2016
Long- and short-term loans and bank credits and other financing sources	19,978	14,640
Long- and short-term other financial liabilities	36	37
	20,014	14,677
Cash and cash equivalents	116,144	61,207
Other financial assets	0	54,935
	116,144	116,142
Net debt	-96,130	-101,465
Equity	210,366	209,623
Net debt to equity ratio	-45.70%	-48.40%

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

Changes in liabilities resulting from financing activities

Item	01-01-2017	Cash flows (change)	Non-cash flows			31-12-2017
			Change on gain/loss of control	Change on exchange gains/losses	Reclassification	
Long-term loans and bank credits and other financing sources	8,875	0	0	0	2,330	11,205
Long-term other financial liabilities	0	0	0	0		0
Short-term loans and bank credits and other financing sources	5,765	5,338	0	0	-2,330	8,773
Short-term other financial liabilities	37	-1	0	0		36
Total financing liabilities	14,677	5,337	0	0	0	20,014

6.3. Non-cash transactions and financing sources

In 2017, there were no non-cash transactions relating to investing or financing activities, which are not reflected in the statement of cash flows.

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 Company include:

- 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 Company's operation.

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

Foreign exchange risk

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

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 Company'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).

	Currency	Nominal value at the end of the reporting period	Sensitivity to changes at 31 December 2017	
			Depreciation of PLN	Appreciation of other currencies
			+5%	-5%
Cash	EUR	2,041	102	-102
	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	237	-12	12
Trade and other receivables	EUR	4,282	214	-214
Gross effect on profit or loss of the period and net assets			304	-304
Deferred tax			-58	58
Total			246	-246

The Company had no hedging currency futures at 31 December 2017.

Interest rate risk

The Company 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 Company to the risk of cash flow fluctuations. The risk is hedged by regular assessments aimed at adjusting interest rates to current situation and readiness to incur a risk.

Interest rate risk – sensitivity to changes

To analyse the sensitivity to interest rate changes, the reasonably possible change in interest rates was assessed, on the basis of historical changes and the Company's experience and knowledge of financial markets, at -1 / +1 pp at 31 December 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)	9,439	-475	509
– recognised in liabilities (present value)	5,755	-227	243
Cash at banks	116,144	1 161	-1 161
Advanced loans	10	0	0
Bank credits and loans	0	0	0
Liabilities relating to financing of property, plant and equipment	14,394	-144	144
Finance lease liabilities	5,584	-56	56
Gross effect on profit or loss of the period and net assets		259	-209
Deferred tax		-49	40
Total		210	-169

Price risk

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

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

The Company 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 Company's knowledge and experience, the price risk is assessed as moderate.

Credit risk

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

The Company's financial assets exposed to increased credit risk include trade receivables (excluding trade receivables from contracting authorities (investors) in connection with the projects executed pursuant to the Public Procurement Act). A credit risk is assessed and verified by the Company with the contracting authority and the suppliers 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 Company 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 Company uses its funds, credits and long-term finance lease agreements to finance its investments and to ensure appropriate stability of financing structure for this type of assets.

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

The maturity structure for financial liabilities is set out in Note 7.14 – Financial instruments.

6.5. Cash and cash equivalents

	Balance at 31-12-2017	Balance at 31-12-2016
Cash on hand and at banks	105,144	52,707
Bank deposits up to three months	11,000	8,500
TOTAL	116,144	61,207

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 Company's cash flows from operating activities of PLN 15,990 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 34,574 thousand were mainly influenced by the settlement of the investment of the Company's funds in corporate bonds.

The Company's cash flows from financing activities of PLN 4,765 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	16,069	-33,820
Cash flows from investing activities	34,495	-64,097
Cash flows from financing activities	4,765	-11,355
Total net cash flows	55,329	-109,272
Cash and cash equivalents at the beginning of the year	61,207	169,795
Cash and cash equivalents at the end of the year	116,144	61,207

ZUE's cash increased by PLN 54,937 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

Gross value	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2017	0	24,542	46,704	50,854	1,949	124,049	518	2,967	127,534
Additions	0	34	219	16,945	148	17,346	4,010	3,705	25,061
Transfer to non-current assets	0	0	0	0	0	0	1,326	2,967	4,293
Sale/liquidation	0	0	963	704	28	1,695	0	0	1,695
Balance at 31 December 2017	0	24,576	45,960	67,095	2,069	139,700	3,202	3,705	146,607
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
Balance at 1 January 2017	0	6,920	18,207	20,509	1,563	47,199	0	0	47,199
Elimination on disposal of assets	0	0	713	614	24	1,351	0	0	1,351
Depreciation expense	0	790	3,073	4,748	144	8,755	0	0	8,755
Balance at 31 December 2017	0	7,710	20,567	24,643	1,683	54,603	0	0	54,603
Carrying amount									
Balance at 1 January 2017	0	17,622	28,497	30,345	386	76,850	518	2,967	80,335
Balance at 31 December 2017	0	16,866	25,393	42,452	386	85,097	3,202	3,705	92,004

The Company 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 742 thousand. At 31 December 2017, the gross carrying amount of fully depreciated property, plant and equipment still used by the Company was PLN 9,759 thousand.

Assets pledged as security

Note 7.20 deals with property, plant and equipment used to secure the agreements with banks. The Company'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	5,228	5,186	0	0	0	10,540
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	5,228	7,397	0	0	0	12,751
Depreciation	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	0	1,333	1,858	0	0	0	3,191
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	172	293	0	0	0	465
Balance at 31 December 2017	0	1,505	2,151	0	0	0	3,656
Carrying amount							
Balance at 1 January 2017	126	3,895	3,328	0	0	0	7,349
Balance at 31 December 2017	126	3,723	5,246	0	0	0	9,095

As at 31 December 2017, investment property includes the real property in Kościelisko (plots no. 2001 and 2491) and the real estate in Poznań (plot no. 2/1).

All of the Company's investment property is held either as freehold or leasehold interests. In 2017, the Company partially released the impairment loss of PLN 2,200 thousand due to revisions in estimates. The total value of investment property impairment losses is PLN 1,770 thousand. The investment property was measured at

purchase price less impairment losses. Revenue from the lease of investment property in 2017 was PLN 379 thousand (PLN 376 thousand in 2016). Operating expenses relating to the investment property amounted to PLN 790 thousand (PLN 891 thousand in 2016).

7.3. Non-current assets held for sale

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

7.4. Intangible assets

Structure of intangible assets

	Balance at 31-12-2017	Balance at 31-12-2016
Acquired concessions, patents, licenses and similar assets, including:	557	971
- Software	557	971
Other intangible assets, including:	8,037	8,148
- Leasehold	8,037	8,148
Total	8,594	9,119

Movements in intangible assets

	Leasehold	Other intangible assets – software	Total
Gross value			
Balance at 1 January 2017	9,038	3,906	12,944
Additions	0	8	8
Disposal/liquidation	0	2	2
Balance at 31 December 2017	9,038	3,912	12,950
Amortisation and impairment			
Balance at 1 January 2017	890	2,935	3,825
Amortisation expense	111	422	533
Disposal/liquidation	0	2	2
Balance at 31 December 2017	1,001	3,355	4,356
Carrying amount			
Balance at 1 January 2017	8,148	971	9,119
Balance at 31 December 2017	8,037	557	8,594

No impairment losses were recognised by the Company.

7.5. Goodwill

	Balance at 31-12-2017	Balance at 31-12-2016
At cost		
Goodwill of PRK	31,172	31,172
Balance at the end of the reporting period	31,172	31,172

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

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

ZUE and PRK merged under joint control.

The entire goodwill is assigned to the construction segment.

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 cash 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

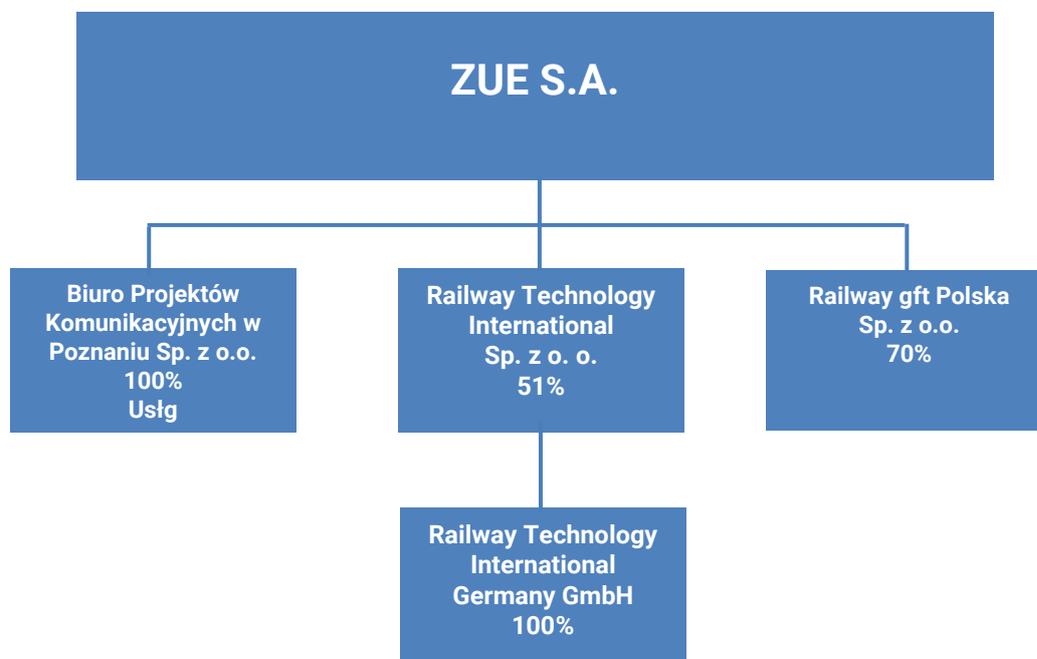
If the useful value of an asset generating cash is estimated, the management personnel is convinced that no reasonably possible change to any key assumption will cause the carrying amount of the said asset to substantially exceed its recoverable value.

7.6. Investments in subordinates

Information about the Company's subsidiaries

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

Structure of the Capital Group at 31 December 2017 and at the date of the report approval:



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

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.

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 GFT Polska Sp. z o.o.	Sales activities	Cracow	70%	70%	210	210
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Preparation of comprehensive design documentation	Poznań	100%	100%	8,762	8,762
Railway Technology International Sp. z o.o.	Holding activities	Cracow	51%	51%	118	118
Total investments in subordinates					9,090	9,090
Write-down of shares of BPK Poznań (cumulative)					8,762	8,762
Write-down of shares of RTI (cumulative)					118	118
Total investments in subordinates net of write-downs					210	210

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.

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
Total	0	54,935

Debt financial instruments held by the Company at 31 December 2016 included corporate bonds sold in 2017.

7.8. Other assets

	Current assets	
	Balance at 31-12-2017	Balance at 31-12-2016
Prepayments	772	1,198
Other receivables	137	0
Total	909	1,198

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

7.9. Advanced loans

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

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

7.10. Inventories

	Balance at 31-12-2017	Balance at 31-12-2016
Goods, materials and raw materials	23,706	5,239
Work in progress	334	759
Finished goods	199	198
Total	24,239	6,196

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

	Current	
	Balance at 31-12-2017	Balance at 31-12-2016
Liabilities under dividends	36	37
Total	36	37

7.12. Other liabilities

	Balance at 31-12-2017	Balance at 31-12-2016
Other liabilities	350	630
Total	350	630

Other non-current liabilities of PLN 350 thousand (PLN 630 thousand) result from the purchase of real estate from a subsidiary.

7.13. Obligations under retirement and other benefits

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

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

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

	Balance at 31-12-2017	Balance at 31-12-2016
Pension and retirement gratuities, including:	953	813
– present amount of obligation at the end of the reporting period	953	813
– actuarial gains / (losses) unrecognised at the end of the reporting period	0	0
– past service cost unrecognised at the end of the reporting period	0	0
Obligations to employees	16,087	16,489
– provision for unused leaves	4,063	3,594
– provision for bonuses and overtime work	5,959	8,019
– salaries and wages	3,126	2,648
– social security and other benefits	2,939	2,228
Total obligations under retirement and other benefits	17,040	17,302
including:		
– long-term	856	740
– short-term	16,184	16,562

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
Present amount of obligation at the beginning of the year	813	863
Interest cost	27	24
Current service cost	83	70
Past service cost	0	116
Benefits paid	-89	-204
Actuarial (gains) / losses	119	-56
Present amount of obligation at the end of the year	953	813

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	83	70
Interest cost	27	24
Actuarial (gains)/ losses recognised in the year	119	-56

Past service cost	0	116
Costs recognised in statement of comprehensive income	229	154
Amount recognised in profit or loss	110	210
Amount recognised in other comprehensive income (without deferred tax)	119	-56
	Balance at 31-12-2017	Balance at 31-12-2016
Amount recognised in other comprehensive income	119	-56
Deferred tax	-23	11
Actuarial gains (losses) relating to specific benefit schemes	96	-45

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

7.14. Financial instruments

The following table sets out the carrying amounts of all financial instruments of the Company with a breakdown into particular classes and categories of assets and liabilities as at 31 December 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	14,167	0	13,360
Trade receivables	0	0	103,145	0	0
Receivables from the state budget other than corporate income tax	0	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	0	0	10	0	0
Cash and cash equivalents	0	116,144	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	19,978
Trade payables	0	0	0	0	86,200
Payables to the state budget other than corporate income tax	0	0	0	0	15,538
Total	0	116,144	117,322	0	135,112

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	9,459	0	16,779
Trade receivables	0	0	65,107	0	0
Receivables from the state budget other than corporate income tax	0	0	4,251	0	0
Debt financial instruments – bank bonds	0	0	54,935	0	0
Other financial liabilities	0	0	0	0	37

Financial statements for the year ended 31 December 2017
(Data provided in PLN '000, unless otherwise specified)

Advanced loans	0	0	289	0	0
Cash and cash equivalents	0	61,207	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	14,640
Trade payables	0	0	0	0	53,329
Payables to the state budget other than corporate income tax	0	0	0	0	837
Total	0	61,207	134,041	0	85,622

No financial instruments were reclassified by the Company 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	117,114	68,902
– 1 - 3 years	14,178	13,341
– 3 - 5 years	2,237	1,444
– 5 years +	1,583	1,935
Total	135,112	85,622

Derivative instruments

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

7.15. Transactions with related entities**Sales transactions**

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

	Receivables		Payables	
	Balance at		Balance at	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Railway GFT	178	69	4,919	21,816
BPK Poznań	1,351	13	1,329	1,149
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	1,529	82	6,248	22,965

	Revenue		Purchases	
	Year ended		Year ended	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Railway GFT	439	572	32,776	74,961
BPK Poznań	555	572	2,470	870
RTI	3	3	0	0
RTI Germany	0	0	0	113
Wiesław Nowak	0	0	468	0
Total	997	1,147	35,714	75,944

	Advanced loans		Financial income (interest)	
	Balance at		Balance at	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Railway GFT	0	0	0	0
BPK Poznań	0	0	0	0
RTI	10	0	0	0
RTI Germany	56	58	1	0
Wiesław Nowak	0	0	0	0
Total	66	58	1	0

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

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

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

- o Purchase of materials used in connection with the construction and repair of tracks;
- o Design services;
- o Printing services;
- o Training services;
- o Equipment services;
- o Transport services;
- o Rail welding services;
- o Office equipment;
- o Vehicles (car); and
- o Shipping services.

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

In the reporting period, BPK Poznań leased rooms from ZUE on the basis of the lease of 1 October 2015 and the lease of 7 April 2010 amended on the basis of the annexes thereto.

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 sales 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 a 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 10 August 2017, ZUE (the lessor) and RGFT (the lessee) signed the lease. The lease came into force on 1 October 2017.

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.

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

At 16 March 2018, ZUE is a party to the pending court proceedings concerning the Company's claims and liabilities of the total value of PLN 51,488 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 51,189 thousand.

The pending court proceedings are related to the Company's operating activities. The court cases are described in detail in the consolidated financial statements.

7.17. 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
Management Board				
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
Proxies				
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
Supervisory Board				
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
Total		3,811		3,937

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 Company 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.

7.18. Information about dividend

On 15 March 2017, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2016 of PLN 1.5m to reserve funds. The recommendations were approved of by the Company's Supervisory Board.

On 6 June 2017, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2016 to reserve funds according to the abovementioned recommendations.

7.19. Operating lease arrangements

Company as lessee

Operating lease relates to the following leasehold property:

- Undeveloped property in Cracow, district 25, comprising the plots no. 121/1, 121/3, 121/4, 122/1, 122/2, 137/2, 162/1 and 162/5 – Land and mortgage registers no. 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
Total	366	314

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
Total	26,346	22,936

7.20. Contingent assets and contingent liabilities

Contingent assets

	Balance at 31-12-2017	Balance at 31-12-2016
Bonds	36,309	27,489
Guarantees	0	0
Bills of exchange	6,756	4,364
Mortgages	0	0
Pledges	0	0
Total	43,065	31,853

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	477,103	195,670
Guarantees	18,421	15,709
Bills of exchange	317,684	110,290
Mortgages	54,259	201,017
Pledges	13,048	0
Total	880,515	522,686

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 Company's counterparties to secure their claims against the Company, mainly in connection with construction contracts and sales agreements. The insurance companies and the banks have recourse against the Company.

Contingent liabilities in the form of guarantees secure the bonds and credits provided to the Group companies and guaranteed by ZUE as 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 financial statements of the Company 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 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 Company did not use the following standards, amendments to the standards or interpretations 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 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 Company did not elect the early application of 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 Company'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 Company 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 Company does not intend to make any adjustments in connection with the said implementation. The standard is being analysed by the Company in detail.

The Company 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 Company 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 Company has not elected the early application of IFRS 16.

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

The Company 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 Company's accounting principles in the context of the Company's operation or financial performance. In particular, the Management Board determine whether the Company is the lessor in the case of office leases.

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 Company 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 Company 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 Company 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. Segment reporting

The Company's reporting is based on operating segments.

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

8.2.4. Measurement of revenue under long-term 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).

8.2.5. 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.

8.2.6. 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 8.2.4, in profit or loss in the period in which they are incurred. Borrowing costs relating to construction contracts are debited directly to the cost of the Company's operating activities.

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

8.2.7. Employee benefits

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

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

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

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

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

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

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

8.2.8. Income tax (including deferred tax)

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

Current tax

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

Deferred tax

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

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

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

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.

8.2.9. Property, plant and equipment

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

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

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

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

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

Non-current assets and non-current assets under construction are tested for impairment if there are indications of impairment at least at the end of each reporting period. Rules governing the determining of impairment are set out in note 8.2.12. 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.

8.2.10. Investment property

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

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

Investment properties, which meet the criteria of being classified as held for sale or disclosed in a pool held for sale, are measured according to the rules set forth in note 8.2.16.

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

8.2.11. Intangible assets

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

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

The expenses associated with the purchase of leasehold are also recognised by the Company as intangible assets. The expenses associated with 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 8.2.12. Effects of the impairment of intangible assets and their amortisation are carried to other operating expenses.

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

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

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

8.2.12. Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

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

8.2.14. Leasing

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

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

The lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant interest rate on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's accounting policy on borrowing costs as set out in note 8.2.6.

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.

8.2.15. Inventories

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

Materials, merchandise and raw materials 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, raw materials 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.

8.2.16. Non-current assets held for sale

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

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

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

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

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

8.2.17. Financial assets

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

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

Assets held to maturity

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

Derecognition of financial assets

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

8.2.18. Financial liabilities and equity instruments issued by the Company

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

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 Company according to a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated or effective as a hedging instrument.

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

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

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

Other financial liabilities 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 liabilities

A financial liability is derecognised by the Company 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.

8.2.19. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the

obligation and a reliable estimate can be made of the amount of the obligation but the amount and timing are uncertain.

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

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

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 8.2.9 and 8.2.11, the Company verifies useful economic lives of tangible and intangible assets at the end of each annual reporting period.

8.3.3. Provisions for litigations

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

8.3.4. Provisions for warranty claims

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

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

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

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

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

Revenues from a construction service that has not been completed are recognised by the Company under the percentage-of-completion method. Contract budgets are prepared for each construction contract. Budgets are updated twice a year on the basis of month-end closes for April and October. The stage of completion of a contract is determined on the basis of contract budgets by calculating the proportion that contract costs incurred

for the work performed to date bear to the estimated total costs of the contract. When contracts are signed but their budgets not approved, the contracts are measured using the zero-profit method.

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

8.3.6. 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

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.

These separate financial statements of the Company cover the period from 1 January to 31 December 2017. The financial statements have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

The financial statements have been prepared by:

Ewa Bosak Chief Accountant

Signatures of the management personnel:

Wiesław Nowak Management Board President

Anna Mroczek Management Board Vice-President

Jerzy Czeremuga Management Board Vice-President

Maciej Nowak Management Board Vice-President

Marcin Wiśniewski Management Board Vice-President

Cracow, 16 March 2018