



**ZUE Capital Group**

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**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

Cracow, 27 March 2019

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Abbreviations and definitions:

ZUE, Company, Issuer, Parent Company	ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,757,520.75 paid up in full. Parent company of the ZUE Capital Group.
BPK Poznań	Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 5,866,600 paid up in full. Subsidiary of ZUE.
Railway gft	Railway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full. Subsidiary of ZUE.
RTI	Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 225,000 paid up in full. Subsidiary of ZUE.
RTI Germany	Railway Technology International Germany GmbH with registered office in Görlitz, Germany, entered into the German Register of Entrepreneurs (Handelsregister B, HRB) maintained by the District Court in Dresden (Amtsgericht Dresden) under entry number HRB 36690. Share capital of EUR 25,000 paid up in full. Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
ZUE Group, Group, Capital Group PLN	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany. Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Journal of Laws of 2017, item 1577, as amended).

Share capital details as at 31 December 2018.

## Selected financial information of the Capital Group

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

	Balance at 31-12-2018		Balance at 31-12-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	182,498	42,441	158,593	38,024
Current assets	447,064	103,968	343,659	82,394
<b>Total assets</b>	<b>629,562</b>	<b>146,409</b>	<b>502,252</b>	<b>120,418</b>
Equity	146,748	34,127	209,419	50,210
Non-current liabilities	36,402	8,466	25,472	6,107
Current liabilities	446,412	103,816	267,361	64,101
<b>Total equity and liabilities</b>	<b>629,562</b>	<b>146,409</b>	<b>502,252</b>	<b>120,418</b>

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

	Period ended 31-12-2018		Restated Period ended 31-12-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Sales revenue	832,725	195,159	415,870	97,974
Cost of sales	888,763	208,292	396,778	93,476
<b>Gross profit (loss) on sales</b>	<b>-56,038</b>	<b>-13,133</b>	<b>19,092</b>	<b>4,498</b>
Operating profit (loss)	-77,890	-18,254	1,641	387
Gross profit (loss)	-77,304	-18,117	895	211
<b>Net profit (loss) from continuing operations</b>	<b>-62,585</b>	<b>-14,668</b>	<b>233</b>	<b>55</b>
Total comprehensive income	-62,660	-14,685	137	32

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

	Period ended 31-12-2018		Period ended 31-12-2017	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-22,180	-5,198	18,863	4,444
Cash flows from investing activities	-17,467	-4,094	34,717	8,179
Cash flows from financing activities	3,591	842	1,848	435
<b>Total net cash flows</b>	<b>-36,056</b>	<b>-8,450</b>	<b>55,428</b>	<b>13,058</b>
Cash at the beginning of the year	117,748	28,231	62,717	14,177
Cash at the end of the year	81,723	19,005	117,748	28,231

**Rules adopted to translate selected financial information into EUR:**

Item	Exchange rate	Exchange rate on	Exchange rate on	Exchange rate on
		31-12-2018	31-12-2017	31-12-2016
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.3000	4.1709	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	4.2669	4.2447	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	4.3000	4.1709	4.4240

**Consolidated statement of comprehensive income**

Continuing operations	Note no.	Restated	
		12 months ended	12 months ended
		31-12-2018	31-12-2017
Sales revenue	2.1., 8.2.2.	832,725	415,870
Cost of sales	2.2., 8.2.2.	888,763	396,778
<b>Gross profit (loss)</b>		<b>-56,038</b>	<b>19,092</b>
General and administrative expenses	2.2., 8.2.2.	21,891	19,753
Other operating income	2.3., 8.2.2.	1,276	4,084
Other operating expenses	2.4., 8.2.2.	1,237	1,782
<b>Operating profit (loss)</b>		<b>-77,890</b>	<b>1,641</b>
Financial income	2.5.	2,051	1,933
Financial expenses	2.6.	1,465	2,679
<b>Pre-tax profit (loss)</b>		<b>-77,304</b>	<b>895</b>
Corporate income tax	2.7.	-14,719	662
<b>Net profit (loss) from continuing operations</b>		<b>-62,585</b>	<b>233</b>
<b>Net profit (loss)</b>		<b>-62,585</b>	<b>233</b>
<b>Other net comprehensive income</b>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>		<b>-75</b>	<b>-96</b>
Actuarial gains (losses) relating to specific benefit schemes	2.8.	-75	-96
<b>Other total net comprehensive income</b>		<b>-75</b>	<b>-96</b>
<b>Total comprehensive income</b>		<b>-62,660</b>	<b>137</b>
Number of shares		23,030,083	23,030,083
<b>Consolidated net profit attributable to:</b>			
Shareholders of the parent		-62,794	310
Non-controlling interests		209	-77
Net profit (loss) per share (PLN) attributable to shareholders of the parent (basic and diluted)		-2.73	0.01

**Total comprehensive income attributable to:**

Shareholders of the parent	-62,869	214
Non-controlling interests	209	-77
Total comprehensive income per share (PLN)	-2.73	0.01

### Consolidated statement of financial position

	Note no.	Balance at 31-12-2018	Restated Balance at 31-12-2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7.1.	104,700	95,023
Investment property	7.2.	5,265	5,591
Intangible assets	7.4.	8,616	9,087
Goodwill	7.5.	31,172	31,172
Retentions on construction contracts	3.2.	9,720	9,696
Deferred tax assets	2.7.	22,876	8,024
Other assets	2.8.	149	0
<b>Total non-current assets</b>		<b>182,498</b>	<b>158,593</b>
<b>Current assets</b>			
Inventories	7.10.	48,720	27,938
Trade and other receivables	4.1., 8.2.2.	194,837	117,940
Measurement of long-term construction contracts	3.1., 8.2.2.	114,910	74,208
Retentions on construction contracts	3.2.	3,021	4,718
Current tax assets	2.7.	0	0
Loans advanced	7.9.	2,813	10
Other assets	7.8.	1,040	1,097
Cash and cash equivalents	6.4.	81,723	117,748
<b>Total current assets</b>		<b>447,064</b>	<b>343,659</b>
<b>Total assets</b>		<b>629,562</b>	<b>502,252</b>

	Note no.	Balance at 31-12-2018	Restated Balance at 31-12-2017
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	5.1.	5,758	5,758
Share premium account	5.3.	93,837	93,837
Treasury shares	5.4.	-2,690	-2,690
Retained earnings	5.5.	49,717	112,605
<b>Total equity attributable to shareholders of the parent company</b>		<b>146,622</b>	<b>209,510</b>
Equity attributable to non-controlling interests		126	-91
<b>Total equity</b>		<b>146,748</b>	<b>209,419</b>
<b>Non-current liabilities</b>			
Long-term loans and bank credits and other financing sources	6.1.	14,815	11,224
Retentions on construction contracts	3.2.	11,371	6,254
Other financial liabilities	7.11.	70	350
Liabilities under employee benefits	7.12.	1,994	1,888
Long-term provisions	3.3.	8,152	5,756
<b>Total non-current liabilities</b>		<b>36,402</b>	<b>25,472</b>
<b>Current liabilities</b>			
Trade and other payables	4.2., 8.2.2.	356,631	223,562
Measurement of long-term construction contracts	3.1., 8.2.2.	7,047	724
Retentions on construction contracts	3.2.	8,312	6,795

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Short-term loans and bank credits and other financing sources	6.1.	20,908	14,908
Other financial liabilities	7.11.	316	316
Liabilities under employee benefits	7.12.	23,455	17,522
Current tax liabilities	2.7.	4	0
Short-term provisions	3.3.	29,739	3,534
<b>Total current liabilities</b>		<b>446,412</b>	<b>267,361</b>
<b>Total liabilities</b>		<b>482,814</b>	<b>292,833</b>
<b>Total equity and liabilities</b>		<b>629,562</b>	<b>502,252</b>

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**Consolidated statement of changes in equity**

**Equity attributable to shareholders of the Group**

		Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the parent	Equity attributable to non-controlling interests	Total equity
<b>Balance at</b>	<b>1 January 2018</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>112,605</b>	<b>209,510</b>	<b>-91</b>	<b>209,419</b>
Change of interest in subsidiaries		0	0	0	-19	-19	8	-11
Payment of dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	-62,794	-62,794	209	-62,585
Other net comprehensive income		0	0	0	-75	-75	0	-75
<b>Balance at</b>	<b>31 December 2018</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>49,717</b>	<b>146,622</b>	<b>126</b>	<b>146,748</b>
<b>Balance at</b>	<b>1 January 2017</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>112,391</b>	<b>209,296</b>	<b>-14</b>	<b>209,282</b>
Change of interest in subsidiaries		0	0	0	0	0	0	0
Payment of dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	310	310	-77	233
Other net comprehensive income		0	0	0	-96	-96	0	-96
<b>Balance at</b>	<b>31 December 2017</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>112,605</b>	<b>209,510</b>	<b>-91</b>	<b>209,419</b>

**Consolidated statement of cash flows**

	12 months ended 31-12-2018	12 months ended 31-12-2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit / (loss) before tax</b>	<b>-77,304</b>	<b>895</b>
<b>Adjustments for:</b>		
Depreciation and amortisation	10,907	9,833
Foreign exchange gains / (losses)	-42	397
Interest and share in profit (dividends)	811	552
(Gain) / loss on disposal of investments including release of investment property allowance	0	-2,413
Accrued expenses under commission on credits	0	17
Gain / (loss) on redemption of debt instruments	0	-302
<b>Operating profit (loss) before changes in working capital</b>	<b>-65,628</b>	<b>8,979</b>
Change in receivables, measurement of contracts and retentions on construction contracts	-116,596	-109,969
Change in inventories	-20,782	-16,652
Change in provisions and liabilities under employee benefits	34,554	-3,400
Change in payables, measurement of contracts and retentions on construction contracts, excluding loans and bank credits and other financing sources	146,105	139,546
Change in accrued expenses	56	281
Change in funds of limited availability	-5	-6
Income tax paid / tax refund	116	84
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>-22,180</b>	<b>18,863</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of property, plant and equipment and intangible assets	892	987
Purchase of property, plant and equipment and intangible assets	-15,829	-21,715
Sale / (purchase) of financial assets in other entities	-58	0
Sale / (purchase) of financial assets from non-controlling shareholders	-11	0
Cash payments to purchase debt instruments of other entities	0	-173,147
Redemption of debt instruments of other entities	0	228,075
Loans advanced	-2,710	-14
Repayment of granted loans	0	4
Interest received	249	218
Gain / (loss) on redemption of debt instruments	0	309
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>-17,467</b>	<b>34,717</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loans and bank credits received	19,970	15,535
Repayment of loans and bank credits	-851	-2,555
Decrease in finance lease liabilities and liabilities relating to financing of property, plant and equipment	-14,449	-10,281
Interest paid	-1,079	-850
Other cash provided by / (used in) financing activities – dividends	0	-1
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>3,591</b>	<b>1,848</b>
<b>TOTAL NET CASH FLOWS</b>	<b>-36,056</b>	<b>55,428</b>
Net foreign exchange gains / (losses)	31	-397
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>117,748</b>	<b>62,717</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR:</b>	<b>81,723</b>	<b>117,748</b>
- of limited availability	4	0

## Notes to the consolidated financial statements as at 31 December 2018

### 1. General information

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

The composition of the Company's Management Board has not changed during the reporting period or until the date of preparation of these consolidated financial statements.

Composition of ZUE's Management and Supervisory Boards at the date of preparation of these consolidated 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

#### Audit Committee:

Mariusz Szubra	Audit Committee Chairperson
Barbara Nowak	Audit Committee Member
Piotr Korzeniowski	Audit Committee Member

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, as amended).

## 1.2. Shareholders of the Parent Company

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

Shareholder	Number of shares/votes at 27 March 2019	% of share capital/total number of votes	Number of shares/votes at the publication of the last interim report <sup>(1)</sup>	% of share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
MetLife OFE	1,400,000 <sup>(2)</sup>	6.08	1,400,000 <sup>(2)</sup>	6.08
PKO Bankowy OFE	1,500,000 <sup>(3)</sup>	6.51	1,500,000 <sup>(3)</sup>	6.51
NN Investment Partners TFI	1,190,437 <sup>(4)</sup>	5.17	1,190,437 <sup>(4)</sup>	5.17
Other	4,539,326 <sup>(5)</sup>	19.71	4,539,326 <sup>(5)</sup>	19.71
<b>Total</b>	<b>23,030,083</b>	<b>100</b>	<b>23,030,083</b>	<b>100</b>

1) Publication of the last interim report (Consolidated quarterly report of the Group for the three quarters of 2018): 27 November 2018.

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

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

4) Shareholding on the basis of the notice of exceeding 5% of the total number of votes of 26 June 2018 referred to by the Company in the current report 30/2018 of 26 June 2018.

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

## 1.3. Composition of the Capital Group

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

ZUE Spółka Akcyjna with registered office in Cracow (the Kazimierza Czapińskiego Street no. 3) is the parent company of the Capital Group.

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

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

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



**Railway Technology  
International Germany  
GmbH  
100%**

**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, the Lubicz Street no. 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.

The companies within 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 financial statements of the Parent Company using consistent accounting policies. The Parent Company and the companies within the Group use a calendar year as their financial year.

#### 1.4. Consolidated companies

Consolidated companies at 31 December 2018:

Company name	Registered office	Shares as at		Consolidation method
		31 December 2018	31 December 2017	
ZUE S.A.	Cracow	Parent company	Parent company	
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	85%	70%	Full

ZUE is entitled to manage the financial and operating policy of BPK Poznań and Railway gft because at 31 December 2018, it held a 100% and 85% interest, respectively, in the companies.

At 31 December 2018, ZUE held 100% of shares in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated.

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 information on the Group's economic and financial condition, Railway Technology International Germany GmbH was not consolidated as at 31 December 2018.

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

On 10 April 2018, ZUE acquired 2,205 shares in RTI from the Company's Management Board President, Mr. Wiesław Nowak for PLN 58 thousand. Following the transaction, ZUE holds 100% of shares in the share capital of RTI and the total number of votes.

On 23 July 2018, ZUE acquired 450 shares in Railway gft from an individual. Following the transaction, ZUE holds 85% of shares in Railway gft.

## 1.6. Activities of the Capital Group

The Group operates in the three aggregate operating segments:

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

**Construction** activities include:

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

In 2018, the Group focused on the provision of rail and urban infrastructure construction services. The power infrastructure market is being observed and analysed.

In 2018, the Group diversified construction activities to include civil structures so that the Company could deliver reinforced concrete projects, such as viaducts, bridges, passages, resistance walls or noise barriers, based on its skills and resources.

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

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

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

The financial information of operating segments is presented in the note 2.9.

## 1.7. Functional and reporting currency

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

## 2. Notes to the statement of comprehensive income

### 2.1. Revenue

	Year ended 31-12-2018	Year ended 31-12-2017
Revenue from construction contracts	755,514	358,050
Revenue from the rendering of services	14,581	14,473
Revenue from the sale of goods, raw and other materials	62,630	43,347
<b>Total</b>	<b>832,725</b>	<b>415,870</b>

The Group recognises revenue from design and construction activities under revenue from construction contracts.

The Group's sales revenue in 2018 was PLN 832,725 thousand and increased year-on-year by 79% and by PLN 276,870 thousand when compared with revenue reported at the end of the third quarter of 2018. In the fourth quarter of 2018, the Group generated 33% of annual revenue.

The Group operated in Poland in 2018. In addition, the Company generated revenue of PLN 198 thousand from the provision of equipment services in Slovakia.

The comparative information has been restated. The restated information is recognised in the note 8.2.2.

#### Concentration of revenue exceeding 10% of total revenue

	Period ended 31-12-2018
Counterparty A	558,380

	Period ended 31-12-2017
Counterparty A	175,840
Counterparty B	77,701
Counterparty C	52,282

### 2.2. Operating expenses

	Period ended 31-12-2018	Period ended 31-12-2017
Change in products	119	239
Depreciation and amortization	10,907	9,833
Consumption of materials and energy, including:	365,719	120,939
- consumption of materials	357,878	115,124
- consumption of energy	7,841	5,815
Contracted services	358,855	130,166
Costs of employee benefits	93,896	68,376
Taxes and charges	1,778	1,697
Other expenses	12,196	17,304
Value of goods and materials sold	67,184	67,977
<b>Total</b>	<b>910,654</b>	<b>416,531</b>

The increase in operating expenses was mainly influenced by the performance of the contracts under the current EU perspective. 2018 saw a large increase in the consumption of materials and the purchase of services provided by subcontractors in connection with the performed contracts.

The comparative information has been restated. The restated information is recognised in the note 8.2.2.

	<b>Period ended 31-12-2018</b>	<b>Period ended 31-12-2017</b>
Cost of sales	888,763	396,778
General and administrative expenses	21,891	19,753
<b>Total</b>	<b>910,654</b>	<b>416,531</b>

The Group's general and administrative expenses in 2018 amounted to PLN 21,891 thousand and increased year-on-year by 11%.

General and administrative expenses include the costs of tender procedures, for instance bid bonds of PLN 436 thousand.

The comparative information has been restated. The restated information is recognised in the note 8.2.2.

### Depreciation and amortisation

	<b>Period ended 31-12-2018</b>	<b>Period ended 31-12-2017</b>
Depreciation of property, plant and equipment	10,067	8,945
Amortisation of intangible assets	502	551
Depreciation of investments in real property	338	337
<b>Total</b>	<b>10,907</b>	<b>9,833</b>

### 2.3. Other operating income

	<b>Period ended 31-12-2018</b>	<b>Period ended 31-12-2017</b>
<b>Gain on disposal of assets</b>	<b>138</b>	<b>213</b>
Gain on disposal of non-current assets	138	213
<b>Other operating income</b>	<b>1,138</b>	<b>3,871</b>
Damages and penalties	149	676
Release of allowances of receivables	50	501
Refund of the costs of court proceedings	597	94
Release of provisions for court cases	141	0
Release of write-downs of inventories	67	79
Release of allowances of investment property	0	2,200
Other	134	321
<b>Total</b>	<b>1,276</b>	<b>4,084</b>

In order to make the consolidated financial statements clearer, reinvoices and damages have been jointly presented by the Group companies (income and expenses according to their netted balance). The comparative information has been restated. The restated information is recognised in the note 8.2.2.

According to the court judgments delivered in 2018, the Group received a refund of the costs of court proceedings.

### 2.4. Other operating expenses

	<b>Period ended 31-12-2018</b>	<b>Period ended 31-12-2017</b>
<b>Loss on disposal of assets</b>	<b>0</b>	<b>0</b>
Loss on disposal of non-current assets	0	0

<b>Other operating expenses</b>	<b>1,237</b>	<b>1,782</b>
Donations	28	17
Damages and penalties	312	10
Write-downs of receivables	541	1,300
Costs of litigations	283	284
Write-downs of inventories	1	0
Other	72	171
<b>Total</b>	<b>1,237</b>	<b>1,782</b>

In order to make the consolidated financial statements clearer, reinvoices and damages have been jointly presented by the Group companies (income and expenses according to their netted balance) since the preparation of the report for H1 2018. The comparative information has been restated. The restated information is recognised in the note 8.2.2.

According to the court judgments delivered in 2018, the Group received a refund of the costs of court proceedings.

## 2.5. Financial income

	Period ended 31-12-2018	Period ended 31-12-2017
<b>Interest income</b>	<b>776</b>	<b>1,348</b>
Interest on bank deposits	432	224
Interest on loans	107	8
Interest on receivables	237	1,116
<b>Other financial income</b>	<b>1,275</b>	<b>585</b>
Foreign exchange gains	3	0
Discount of long-term items	1,272	272
Realisation of financial instruments	0	309
Other	0	4
<b>Total</b>	<b>2,051</b>	<b>1,933</b>

## 2.6. Financial expenses

	Period ended 31-12-2018	Period ended 31-12-2017
<b>Interest expenses</b>	<b>1,189</b>	<b>1,093</b>
Interest on bank credits	263	274
Interest on loans	6	7
Interest on finance lease liabilities	175	219
Interest on liabilities relating to financing of property, plant and equipment	641	357
Interest on trade and other payables	104	236
<b>Other financial expenses</b>	<b>276</b>	<b>1,586</b>
Foreign exchange losses	115	663
Discount of long-term items	39	562
Allowance for investments in related parties	58	0
Other	64	361
<b>Total</b>	<b>1,465</b>	<b>2,679</b>

## 2.7. Corporate income tax

### Corporate income tax recognised in statement of comprehensive income

	<b>Period ended 31-12-2018</b>	<b>Period ended 31-12-2017</b>
Current income tax	116	-20
Deferred tax	-14,835	682
<b>Total tax expense/income</b>	<b>-14,719</b>	<b>662</b>

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

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

#### Income tax according to effective interest rate

	<b>Period ended 31-12-2018</b>	<b>Period ended 31-12-2017</b>
<b>Gross profit (loss)</b>	<b>-77,304</b>	<b>895</b>
Income tax at the applicable rate of 19%	-14,688	170
<b>Effect of tax recognition:</b>	<b>7,023</b>	<b>-392</b>
Use of tax losses of prior years	162	216
- Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	13,979	10,482
- Revenue not classified as revenue under tax regulations and taxable revenue that is not balance sheet revenue	6,794	10,658
Revaluation of deferred tax assets (current year loss)	7,781	222
Deferred tax	-14,835	682
Income tax adjustments	0	0
Income tax paid /(tax refund) on income earned abroad	0	-20
<b>Income tax according to effective tax rate</b>	<b>-14,719</b>	<b>662</b>
Effective tax rate	19%	74%

#### Current tax assets and liabilities

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
<b>Current tax assets</b>		
Tax refundable	0	0
<b>Current tax liabilities</b>		
Tax payable	4	0

## Deferred tax balance

	Balance at 31-12-2018	Balance at 31-12-2017
<b>Deferred tax balance at the beginning of the year</b>	<b>8,024</b>	<b>8,683</b>
<b>Temporary differences relating to deferred tax assets:</b>	<b>40,658</b>	<b>24,297</b>
Provisions for expenses and accruals	20,309	10,850
Discount of receivables	261	375
Operating lease liabilities	1,493	122
Write-downs	1,494	1,440
Bonds and insurances settled over time	1,711	2,109
Tax work in progress	13,798	8,863
Measurement of long-term contracts	1,339	242
Other	253	296
<b>Temporary differences relating to deferred tax liabilities:</b>	<b>33,552</b>	<b>23,994</b>
Measurement of long-term contracts	21,964	14,207
Difference between the carrying and tax amount of property, plant and equipment and intangible assets	10,991	9,069
Discount of payables	560	441
Other	37	277
<b>Unused tax losses and other tax credits:</b>	<b>15,770</b>	<b>7,721</b>
Tax losses	15,770	7,721
<b>Total temporary differences relating to deferred tax assets:</b>	<b>56,428</b>	<b>32,018</b>
<b>Total temporary differences relating to deferred tax liabilities:</b>	<b>33,552</b>	<b>23,994</b>
<b>Deferred tax balance at the end of the year</b>	<b>22,876</b>	<b>8,024</b>
<b>Change in deferred tax, including:</b>	<b>14,852</b>	<b>-659</b>
- recognised in income	14,835	-682
- recognised in equity	17	23

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

## 2.8. Components of other comprehensive income

Components of other comprehensive income:

	Period ended 31-12-2018	Period ended 31-12-2017
Actuarial gains (losses) relating to specific benefit schemes	92	119
Deferred tax	-17	-23
<b>Amount recognised in other comprehensive income</b>	<b>75</b>	<b>96</b>

## 2.9. Operating segments

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

- Construction;
- Design; and

- Sales.

Each segment jointly meets the following rules:

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

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

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

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

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

#### Operating segments results in 2018:

	Construction	Sales	Design	Exclusions	Total
<b>Sales revenue</b>	<b>763,757</b>	<b>71,800</b>	<b>14,499</b>	<b>-17,331</b>	<b>832,725</b>
including:					
Revenue from external customers	763,182	60,056	6,071	3,416	832,725
Inter-segment revenues	575	11,744	8,428	-20,747	0
including:					
Revenue from construction contracts	746,026	0	14,499	-5,011	755,514
Revenue from the provision of services	15,069	187	0	-675	14,581
Revenue from the sale of goods, raw and other materials	2,662	71,613	0	-11,645	62,630
<b>Gross profit</b>	<b>-62,035</b>	<b>3,758</b>	<b>1,999</b>	<b>240</b>	<b>-56,038</b>
Financial income / expenses	1,259	-537	-145	9	586
Interest received	247	15	0	-13	249
Interest paid	-813	-249	-17	0	-1,079
<b>Pre-tax profit</b>	<b>-78,714</b>	<b>1,061</b>	<b>18</b>	<b>331</b>	<b>-77,304</b>
Corporate income tax	-14,665	-116	0	62	-14,719
<b>Net profit</b>	<b>-64,049</b>	<b>1,177</b>	<b>18</b>	<b>269</b>	<b>-62,585</b>
Depreciation and amortisation	10,760	10	144	-7	10,907
Property, plant and equipment	101,815	4	173	2,708	104,700
Non-current assets	181,913	439	802	-656	182,498
<b>Total assets</b>	<b>596,618</b>	<b>27,933</b>	<b>17,248</b>	<b>-12,237</b>	<b>629,562</b>
<b>Total liabilities</b>	<b>450,376</b>	<b>27,055</b>	<b>17,015</b>	<b>-11,632</b>	<b>482,814</b>

In 2018, the Group operated in the territory of Poland. In addition, ZUE reported revenue of PLN 198 thousand from the provision of equipment services in the territory of Slovakia.

**Operating segments results in 2017:**

	<b>Construction</b>	<b>Sales</b>	<b>Design</b>	<b>Exclusions</b>	<b>Total</b>
<b>Sales revenue</b>	<b>359,041</b>	<b>75,383</b>	<b>17,805</b>	<b>-36,359</b>	<b>415,870</b>
including:					
Revenue from external customers	358,466	42,615	15,346	-557	415,870
Inter-segment revenues	575	32,768	2,459	-35,802	0
including:					
Revenue from construction contracts	343,836	0	17,805	-3,591	358,050
Revenue from the provision of services	11,816	2,657	0	0	14,473
Revenue from the sale of goods, raw and other materials	3,389	72,726	0	-32,768	43,347
<b>Gross profit</b>	<b>15,691</b>	<b>2,479</b>	<b>1,528</b>	<b>-606</b>	<b>19,092</b>
Financial income / expenses	-17	-652	-51	-26	-746
Interest received	217	0	1	0	218
Interest paid	-572	-270	-8	0	-850
<b>Pre-tax profit</b>	<b>1,504</b>	<b>-247</b>	<b>206</b>	<b>-568</b>	<b>895</b>
Corporate income tax	665	40	65	-108	662
<b>Net profit</b>	<b>839</b>	<b>-287</b>	<b>141</b>	<b>-460</b>	<b>233</b>
Depreciation and amortisation	9,753	23	86	-29	9,833
Property, plant and equipment	92,004	4	170	2,845	95,023
Non-current assets	158,317	219	657	-600	158,593
<b>Total assets</b>	<b>475,282</b>	<b>18,886</b>	<b>16,750</b>	<b>-8,666</b>	<b>502,252</b>
<b>Total liabilities</b>	<b>264,916</b>	<b>19,185</b>	<b>16,535</b>	<b>-7,803</b>	<b>292,833</b>

In 2017, the Group operated in the territory of Poland.

The comparative information has been restated. The restated information is recognised in the note 8.2.2.

### 3. Contracts, retentions and provisions

#### 3.1. Construction contracts

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

##### Selected items

	<b>31-12-2018</b>	<b>31-12-2017</b>
Revenue from long-term construction contracts	725,877	326,776
Costs of long-term construction contracts	766,169	319,084
<b>Gross profit (loss) on long-term contracts</b>	<b>-40,292</b>	<b>7,692</b>

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
<b>Assets (selected items)</b>	<b>142,926</b>	<b>98,878</b>
- Measurement of long-term construction contracts	114,910	74,208
- Advance payments for contracts	15,275	10,256
- Retentions on construction contracts retained by customers	12,741	14,414
<b>Liabilities (selected items)</b>	<b>201,250</b>	<b>132,814</b>
- Measurement of long-term construction contracts	7,047	724
- Provisions for contract costs	62,002	34,839
- Advance payments for contracts	75,009	75,128
- Retentions on construction contracts retained for suppliers	19,683	13,049
- Provisions for warranty claims	10,122	8,458
- Provisions for expected losses on contracts	27,387	616

The construction contracts include, in line with the Group's policy, construction and design activities.

The increase in the measurement of long-term construction contracts was mainly influenced by a greater progress of works.

Provisions for contract costs are included in accruals.

Provision for a loss on contracts is created if the budgeted costs exceed the total revenue under a contract.

The increase in provisions for expected losses on contracts was influenced by the review of the construction contract budgets. Following the review, the Management Board of the Company decided to reduce the margins for certain railway construction contracts performed for PKP PLK S.A. The decision referred mainly to the contracts won in 2016 and 2017.

Provisions for contract costs increased after more subcontractors had been involved in the performance of contracts.

The comparative information has been restated. The restated information is recognised in the note 8.2.2.

#### 3.2. Retentions on construction contracts

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
Retained by customers – to be repaid after 12 months	9,720	9,696
Retained by customers – to be repaid within 12 months	3,021	4,718

<b>Total retentions on construction contracts retained by customers</b>	<b>12,741</b>	<b>14,414</b>
Retained for suppliers – to be repaid after 12 months	11,371	6,254
Retained for suppliers – to be repaid within 12 months	8,312	6,795
<b>Total retentions on construction contracts retained for suppliers</b>	<b>19,683</b>	<b>13,049</b>

The construction contracts and work-for-hire contracts entered into by the Group provide for an obligation to provide performance bonds and defects liability bonds in the form of deposits 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.

Cash deposits decreased at the end of 2018 after the amount had been returned by the Bank following the expiry of the term thereof.

Cash deposits increased at the end of 2018 after they had been retained for subcontractors as a result of their greater involvement in the performance of contracts.

#### Discount of long-term retentions (excluding bank deposit discounts)

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
Discount of long-term retentions on construction contracts retained by customers	289	360
Discount of long-term retentions on construction contracts retained for suppliers	1,494	1,021

#### Discount of long-term retentions

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
Discount of long-term retentions on construction contracts retained by customers	1,359	1,980
Discount of long-term retentions on construction contracts retained for suppliers	1,494	1,021

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
Financial income from the discount of retentions	1,099	67
Financial expenses from the discount of retentions	18	328
Deferred tax	205	-50
<b>Net effect on the statement of comprehensive income</b>	<b>876</b>	<b>-211</b>

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

	Balance at 31-12-2018	Balance at 31-12-2017
Past due retentions on construction contracts:		
– up to 1 month	0	0
– 1 - 3 months	0	0
– 3 - 6 months	0	0
– 6 months - 1 year	0	0
– over 1 year	292	293
<b>Total past due retentions on construction contracts (gross)</b>	<b>292</b>	<b>293</b>
Write-downs	-292	-293
<b>Total past due retentions on construction contracts (net)</b>	<b>0</b>	<b>0</b>

### Discount rate

The effective discount rate in 2018 used for deposit discounting was 2.8% (3.5% in 2017)

### 3.3. Provisions

Provisions	01-01-2018	Created	Used	Released	Reclassified	31-12-2018	Item
<b>Long-term provisions:</b>	<b>7,644</b>	<b>3,841</b>	<b>308</b>	<b>222</b>	<b>-809</b>	<b>10,146</b>	
Provisions for employee benefits	1,888	231	1	4	-120	1,994	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,756	3,610	307	218	-689	8,152	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
<b>Short-term provisions:</b>	<b>14,426</b>	<b>45,767</b>	<b>13,385</b>	<b>3,430</b>	<b>809</b>	<b>44,187</b>	
Provisions for employee benefits	10,892	16,709	12,657	616	120	14,448	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,702	10	706	725	689	1,970	Short-term provisions
Provision for loss on contracts	616	28,708	0	1,937	0	27,387	Short-term provisions
Other provisions	216	340	22	152	0	382	Short-term provisions
<b>Total provisions:</b>	<b>22,070</b>	<b>49,608</b>	<b>13,693</b>	<b>3,652</b>	<b>0</b>	<b>54,333</b>	

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

Short-term provisions for employee benefits include the provisions for leaves, bonuses and retirement and pension gratuities.

(Long-term) liabilities under employee benefits include long-term liabilities under the company social benefits fund and provisions for retirement and pension gratuities.

A provision for a loss on contracts is created if the budgeted costs exceed the total revenue under a contract.

The increase in provisions for expected losses on contracts was influenced by the review of the construction contract budgets. Following the review, the Management Board of the Company decided to reduce the margins for certain railway construction contracts performed for PKP PLK S.A. The decision referred mainly to the contracts won in 2016 and 2017.

#### Comparative information:

Provisions	01-01-2017	Created	Used	Released	Reclassified	31-12-2017	Item
<b>Long-term provisions:</b>	<b>9,509</b>	<b>1,934</b>	<b>152</b>	<b>61</b>	<b>-3,586</b>	<b>7,644</b>	
Provisions for employee benefits	1,864	175	24	2	-125	1,888	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,645	1,759	128	59	-3,461	5,756	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
<b>Short-term provisions:</b>	<b>17,056</b>	<b>18,581</b>	<b>12,928</b>	<b>11,869</b>	<b>3,586</b>	<b>14,426</b>	
Provisions for employee benefits	12,506	13,803	12,152	3,390	125	10,892	Liabilities under employee benefits (short-term)
Provisions for warranty claims	3,233	367	679	3,680	3,461	2,702	Short-term provisions
Provision for loss on contracts	46	4,333	0	4,770	1,007	616	Short-term provisions
Other provisions	1,271	78	97	29	-1,007	216	Short-term provisions
<b>Total provisions:</b>	<b>26,565</b>	<b>20,515</b>	<b>13,080</b>	<b>11,930</b>	<b>0</b>	<b>22,070</b>	

## 4. Trade and other receivables and payables

### 4.1. Trade and other receivables

	Balance at 31-12-2018	Balance at 31-12-2017
Trade receivables	192,693	116,820
Loss allowances for trade receivables in connection with the increase of credit risk	-17,654	-13,893
Loss allowances for trade receivables – initial for expected credit losses	-119	0
Receivables from the state budget other than corporate income tax	383	438
Advance payments	15,275	10,256
Other receivables	4,259	4,319
<b>Total trade and other receivables</b>	<b>194,837</b>	<b>117,940</b>

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

Other receivables include the security created in connection with the financing agreement of PLN 4,000 thousand.

### Ageing analysis of trade receivables

	Balance at 31-12-2018	Balance at 31-12-2017
<b>Not past due receivables</b>	<b>168,080</b>	<b>80,781</b>
<b>Receivables that are past due but not impaired</b>	<b>6,959</b>	<b>22,147</b>
1-30 days	389	20,490
31-60 days	4,635	198
61-90 days	375	71
91-180 days	345	136
181-360 days	0	9
360 + days	1,215	1,243
<b>Past due receivables for which allowances were recognized</b>	<b>17,654</b>	<b>13,892</b>
1-30 days	1,841	317
31-60 days	182	400
61-90 days	35	175
91-180 days	1,359	277
181-360 days	1,033	957
360 + days	13,204	11,766
<b>Total trade receivables (gross)</b>	<b>192,693</b>	<b>116,820</b>
<b>Allowances for trade receivables</b>	<b>-17,654</b>	<b>-13,893</b>
<b>Total trade receivables (net)</b>	<b>175,039</b>	<b>102,927</b>

Past due receivables for which allowances were recognized:

- Receivables in which an increase of credit risk was found; and
- Receivables resulting from the issue of debit notes for penalties and damages that were not the Group's revenue at the moment of issue so the allowances were not presented as recorded in profit or loss.

### Change in impairment losses on receivables

Change in allowances for trade receivables influencing the profit or loss includes the release of allowances of PLN 50 thousand and the recognition of allowances of PLN 541 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by the Group for the penalties and damages that were not the Group's revenue at the moment of issue.

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

	Balance at 31-12-2018
Counterparty A	147,395
	Balance at 31-12-2017

Counterparty A 66,955

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

#### 4.2. Trade and other payables

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
Trade payables	188,156	96,216
Liabilities to the state budget other than corporate income tax	30,959	16,965
Accruals	62,428	35,110
Other payables	79	143
Advance payments	75,009	75,128
<b>Total trade and other payables</b>	<b>356,631</b>	<b>223,562</b>

Trade and other payables 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 to perform construction contracts.

#### Ageing analysis of trade payables

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
<b>Not past due payables</b>	<b>148,795</b>	<b>83,431</b>
<b>Past due payables</b>	<b>39,361</b>	<b>12,785</b>
1-30 days	39,084	12,647
31-60 days	68	1
61-90 days	148	0
91-180 days	0	0
181-360 days	2	41
360 + days	59	96
<b>Total trade payables</b>	<b>188,156</b>	<b>96,216</b>

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## 5. Equity

### 5.1. Share capital

The amount of the registered share capital and the amount recognised in the consolidated financial statements as at 31 December 2018 was PLN 5,757,520.75.

#### Share capital as at 27 March 2019

(PLN)

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

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

At 31 December 2018, the share capital structure was the same as at 27 March 2019.

### 5.2. Profit (loss) per share

(PLN)

	Period ended 31-12-2018	Period ended 31-12-2017
Basic profit (loss) per share	-2.73	0.01
Diluted profit (loss) per share	-2.73	0.01

#### Basic profit (loss) per share

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

(PLN)

	Period ended 31-12-2018	Period ended 31-12-2017
Profit (loss) per share for the financial year	-2.73	0.01
<b>Total profit (loss) used in the calculation of basic profit per share</b>	<b>-62,794,527.79</b>	<b>310,120.50</b>
Weighted average number of ordinary shares used in the calculation of profit (loss) per share	23,030,083	23,030,083

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

#### Diluted profit (loss) per share

There are no diluting instruments.

### 5.3. Share premium account

	Period ended 31-12-2018	Period ended 31-12-2017
<b>Balance at the beginning of the year</b>	<b>93,837</b>	<b>93,837</b>
Share issue	0	0
Issue costs	0	0
<b>Balance at the end of the year</b>	<b>93,837</b>	<b>93,837</b>

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

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

In 2013, the Company launched a new issue of class C shares. The *agio* generated by the Company on 6 December 2013 was PLN 9m. The costs of class C shares issue in 2013 amounted to PLN 0.5m. The Company did not launch any new issue of shares in 2014-2018.

### 5.4. Treasury shares

At the date of preparation of the consolidated 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

	Period ended 31-12-2018	Period ended 31-12-2017
<b>Balance at the beginning of the year</b>	<b>112,605</b>	<b>112,391</b>
<b>Net profit distribution</b>	<b>310</b>	<b>809</b>
Reserve funds	310	809
Capital reserve	0	0
Coverage of loss of prior years	0	0
<b>Profit (loss) for the current year</b>	<b>-62,794</b>	<b>310</b>
<b>Other net comprehensive income</b>	<b>-75</b>	<b>-96</b>
<b>Payment of dividend for the previous year</b>	<b>0</b>	<b>0</b>
Change of interest in subsidiaries	-19	0
<b>Balance at the end of the year</b>	<b>49,717</b>	<b>112,605</b>

Retained earnings of prior years include the earnings retained at companies on the basis of the shareholders' decision and the effects of the implementation of IFRS.

Companies create a capital reserve according to the articles of association. A company's profit to be distributed in subsequent periods or used to cover special losses or other expenses may be allocated to capital reserve.

The Company's reserve funds meet the requirements of Art. 396 of the Act. According to the Act, reserve funds should be created so that a loss can be financed. At least 8% of profit for the financial year should be transferred to the reserve funds until the reserve funds reach at least one third of the share capital.

## 6. Debt and management of capital and liquidity

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

	Balance at 31-12-2018	Balance at 31-12-2017
<b>Long-term</b>	<b>14,815</b>	<b>11,224</b>
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	10,763	7,714
Obligations under finance leases	4,052	3,510
<b>Short-term</b>	<b>20,908</b>	<b>14,908</b>
Bank credits	7,651	5,851
Received loans	256	250
Liabilities relating to financing of property, plant and equipment	9,753	6,680
Obligations under finance leases	3,248	2,127
<b>Total</b>	<b>35,723</b>	<b>26,132</b>

Liabilities relating to the financing of property, plant and equipment include leasebacks. In the reporting period, the Group signed the agreements for the purchase of piling station of PLN 3,326 thousand, wagons of PLN 8,510 thousand and two-way rail welding machine of PLN 5,483 thousand. For presentation purposes, leaseback has been named the agreement for financing of property, plant and equipment.

#### Obligations under finance lease (excluding leaseback)

	Minimum lease payments		Present value of minimum lease payments	
	Balance at 31-12-2018	Balance at 31-12-2017	Balance at 31-12-2018	Balance at 31-12-2017
Not later than one year	3,435	2,270	3,248	2,127
Later than one year and not later than five years	4,152	3,610	4,052	3,510
Later than five years	0	0	0	0
Less: future finance charges	-287	-243	0	0
<b>Present value of minimum lease payments</b>	<b>7,300</b>	<b>5,637</b>	<b>7,300</b>	<b>5,637</b>
Leases are presented in the financial statements as:				
Short-term loans and bank credits and other financing sources			3,248	2,127
Long-term loans and bank credits and other financing sources			4,052	3,510

### Liabilities relating to financing of property, plant and equipment (leaseback)

	Minimum lease payments		Present value of minimum lease payments	
	Balance at 31-12-2018	Balance at 31-12-2017	Balance at 31-12-2018	Balance at 31-12-2017
Not later than one year	10,263	7,044	9,753	6,680
Later than one year and not later than five years	11,113	7,879	10,763	7,714
Later than five years	0	0	0	0
Less: future finance charges	-860	-529	0	0
<b>Present value of minimum lease payments</b>	<b>20,516</b>	<b>14,394</b>	<b>20,516</b>	<b>14,394</b>
Leases are presented in the financial statements as:				
Short-term loans and bank credits and other financing sources			9,753	6,680
Long-term loans and bank credits and other financing sources			10,763	7,714

### General terms of finance lease and leaseback

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

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

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

## Summary of credit agreements

### Balance at 31 December 2018

No.	Bank	Description	Principal/limit according to the agreement as at 31-12-2018	Use as at 31-12-2018	Interest	Repayment date
1	mBank S.A. (i)	Overdraft	10,000	0	O/N WIBOR + margin	10-05-2019
2	mBank S.A.	Cooperation agreement	50,000	0	3M WIBOR + margin	17-07-2020
		including:				
		sublimit for bonds	50,000	0		
		sublimit for working credit facilities	30,000	0		
3	BGŻ BNP PARIBAS S.A.	Multipurpose credit line agreement	170,000	104,508	1M WIBOR + margin	24-10-2019
		including:				
		sublimit for bonds	170,000	104,508		
		sublimit for working credit facilities	20,000	0		
4	BGŻ BNP Paribas S.A. (iv)	Multipurpose credit line	600	313	1M WIBOR + margin	05-11-2019
5	mBank S.A. (iii)	Overdraft	500	496	O/N WIBOR + margin	07-06-2019
6	mBank S.A. (ii)	Working credit facility for contract prefinancing	2,000	842	1M WIBOR + margin	25-11-2019
7	mBank S.A.	Revolving credit	5,000	5,000	1M WIBOR + margin	23-08-2019
8	BGŻ BNP Paribas S.A.	Revolving credit agreement	4,000	1,000	3M WIBOR + margin	06-08-2019
<b>Total use of credits at the Group</b>				<b>7,651</b>		
<b>Total use of bonds at the Group</b>				<b>104,508</b>		

(i) Annex of 9 May 2018 whereby the limit was raised to PLN 10,000 thousand.

(ii) New agreement of 26 April 2018.

(iii) Annex of 5 June 2018 whereby the limit was raised to PLN 500 thousand.

(iv) Annex of 15 November 2018 whereby the limit was raised to PLN 600 thousand.

Security and liabilities under credit agreements:

1. **Overdraft** – bill of exchange.
2. **Cooperation agreement:**
  - a) Mortgage;
  - b) Borrower's statement on submission to enforcement.
3. **Multipurpose credit limit agreement:**
  - a) Bill of exchange;
  - b) Cash deposit for the bonds expiring after 37 months;
  - c) Security deposit of PLN 4,000 thousand;
  - d) Registered pledge on non-current assets owned by the borrower;
  - e) Assignment of rights under policy;
  - f) Borrower's statement on submission to enforcement.
4. **Multipurpose credit limit:**
  - a) Blank bill of exchange;
  - b) Borrower's statement on submission to enforcement.
5. **Overdraft:**
  - a) Blank bill of exchange;
  - b) ZUE's guarantees.
6. **Working credit facility for contract prefinancing:**
  - a) Blank bill of exchange;
  - b) ZUE's guarantees;
  - c) Assignment of claims.
7. **Revolving credit:**
  - a) ZUE's guarantees;
  - b) Registered pledge on inventories;
  - c) Blank bill of exchange;
  - d) Statements on submission to enforcement;
  - e) Assignment of rights under insurance policy.
8. **Revolving credit agreement:**
  - a) Bill of exchange;
  - b) Statements on submission to enforcement.

The following changes occurred after the end of the reporting period with regard to credit agreements entered into by the Group:

- mBank – Cooperation Agreement – Annex of 21 February 2019 whereby the sublimit was raised to PLN 40,000 thousand and the agreement was renamed to Master Agreement.

**Comparative information:**

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

**6.2. Management of capital**

The Group reviews the capital structure each time for the purpose of financing major contracts/orders. As part of this review, the Group considers own resources required for day-to-day operations, the schedule of contract/order financing, the cost of capital and the risks associated with each class of capital.

	Balance at 31-12-2018	Balance at 31-12-2017
Long- and short-term loans and bank credits and other financing sources	35,723	26,132
Long- and short-term other financial liabilities	386	666
<b>Total financial liabilities</b>	<b>36,109</b>	<b>26,798</b>
Cash and cash equivalents	81,723	117,748
<b>Net debt</b>	<b>-45,614</b>	<b>-90,950</b>
Equity	146,748	209,419
<b>Net debt to equity ratio</b>	<b>-31.08%</b>	<b>-43.43%</b>

The Group's long- and short-term debt mainly includes liabilities under leases for the purchase of non-current assets and liabilities relating to the financing of property, plant and equipment (leaseback) and ongoing use of credits by subsidiaries.

The Group recognised negative net debt because the amount of cash was greater than total debt at the end of 2018.

The Group uses own resources (especially ZUE's) and credit limits to finance day-to-day operations.

#### Changes in liabilities resulting from financing activities

Item	01-01-2018	Cash flows (change)	Change on gain/loss of control	Change on exchange gains/losses	Reclassification	31-12-2018
Long-term loans and bank credits and other financing sources	11,224	0	0	0	3,591	14,815
Long-term other financial liabilities	350	0	0	0	-280	70
Short-term loans and bank credits and other financing sources	14,908	9,591	0	0	-3,591	20,908
Short-term other financial liabilities	316	-280	0	0	280	316
<b>Total financing liabilities</b>	<b>26,798</b>	<b>9,311</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>36,109</b>

### 6.3. Financial risk management

The main financial instruments used by the Group include:

- Bank credits – loans whose aim is to obtain funds to finance the Group's operation;
- Finance leases and agreements for the financing of property, plant and equipment whose aim is to obtain funds to finance investments;
- Trade and other receivables and payables as well as cash and short-term deposits arising during the course of the Group's operation.

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

## Foreign exchange risk

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

### Foreign exchange risk – sensitivity to changes

To analyse the sensitivity to exchange rate changes, the reasonably possible change in foreign exchange rates was assessed, on the basis of historical changes and the Group's experience and knowledge of financial markets, at -5% / +5% for EUR/PLN exchange rate as at 31 December 2018.

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 2018	
			Depreciation of PLN	Appreciation of other currencies
			+5%	-5%
Cash	EUR	450	23	-23
	USD	147	7	-7
	HRK	1	0	0
Trade and other payables	EUR	4,463	-223	223
Trade and other receivables	EUR	3,855	193	-193
<b>Gross effect on profit or loss of the period and net assets</b>			<b>0</b>	<b>0</b>
Deferred tax			0	0
<b>Total</b>			<b>0</b>	<b>0</b>

The Group had no hedging currency futures at 31 December 2017 or 31 December 2018.

## Interest rate risk

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

### Interest rate risk – sensitivity to changes

To analyse the sensitivity to interest rate changes, the reasonably possible change in interest rates was assessed, on the basis of historical changes and the Group's experience and knowledge of financial markets, at -1 / +1 pp at 31 December 2018. 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 2018.

	Amount at the end of the reporting period	Balance at 31-12-2018	
		+100 bp	-100 bp
Long-term retentions on construction contracts (discount):			
– recognised in assets (present value)	9,720	-429	457
– recognised in liabilities (present value)	11,371	-463	497
Cash at banks	81,723	817	-817
Advanced loans	1,040	10	-10
Bank credits and loans	7,907	-79	79
Liabilities relating to financing of property, plant and equipment	20,516	-205	205
Finance lease liabilities	7,300	-73	73

<b>Gross effect on profit or loss of the period and net assets</b>	<b>-422</b>	<b>484</b>
Deferred tax	80	-92
<b>Total</b>	<b>-342</b>	<b>392</b>

#### Price risk

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

Changes in prices of materials or labour costs may contribute to a change in service fees charged by subcontractors. Prices contained in contracts with investors remain fixed throughout the term of such contracts (usually from 6 to 36 months). However, contracts with subcontractors may be concluded at a later date as the works progress.

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

#### Credit risk

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

The Group's financial assets exposed to increased credit risk include trade receivables (excluding trade receivables from contracting authorities (investors) in connection with the projects executed pursuant to the Public Procurement Act). A contract-related credit risk is assessed and verified by the Group both at the stage of tender submission and at the stage of project execution.

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

#### Liquidity risk

The Group reduces liquidity risk by maintaining sufficient cash and concluding multi-purpose credit line agreements which serve as an additional safeguard against the loss of liquidity. The Group uses its funds, credits and long-term finance lease agreements to finance its investments and to ensure appropriate stability of financing structure for this type of assets.

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

The maturity structure for financial liabilities is set out in Note 7.13 – Financial instruments.

### 6.4. Cash and cash equivalents

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
Cash on hand and at banks	81,723	106,748
Bank deposits up to three months	0	11,000
<b>TOTAL</b>	<b>81,723</b>	<b>117,748</b>

Cash decreased at the end of 2018 after it had been used for operating and investing activities.

Cash as at 31 December 2018 does not include the amount of PLN 2,962 thousand kept on escrow accounts. The funds are payable to the Group and consortium members. The Group does not have a full control of the funds and cannot use them freely without the consortium's consent. Accordingly, the Group believes that the cash cannot be

defined as assets and is not presented in the balance sheet at 31 December 2018. The cash kept on ZUE's escrow accounts as at 31 December 2017 was PLN 9,998 thousand.

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

The Group's cash flows from operating activities of PLN (-) 22,180 thousand were mainly influenced by changes in retentions, payables and receivables, measurements of contracts and inventories in connection with the performance of construction contracts.

Cash flows from investing activities of PLN (-) 17,467 thousand were mainly influenced by the purchase of non-current assets (specialist machinery) financed with own resources and a loan.

Cash flows from financing activities of PLN 3,591 thousand were influenced by the leaseback for specialist equipment and vehicles as well as a decrease in liabilities under leases and the use of credit lines by subsidiaries.

	Period ended 31-12-2018		Period ended 31-12-2017	
Cash flows from operating activities	-22,180	-5,198	18,863	4,444
Cash flows from investing activities	-17,467	-4,094	34,717	8,179
Cash flows from financing activities	3,591	842	1,848	435
<b>Total net cash flows</b>	<b>-36,056</b>	<b>-8,450</b>	<b>55,428</b>	<b>13,058</b>
Cash and cash equivalents at the beginning of the period	117,748	28,231	62,717	14,177
Cash and cash equivalents at the end of the period	81,723	19,005	117,748	28,231

The Group's cash decreased by PLN 36,025 thousand compared to the end of 2017 as a result of the abovementioned changes.

## 7. Other notes to the financial statements

### 7.1. Property, plant and equipment

Property, plant and equipment		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Gross value</b>	<b>1 January 2018</b>	<b>0</b>	<b>26,162</b>	<b>46,839</b>	<b>67,387</b>	<b>2,271</b>	<b>142,659</b>	<b>3,202</b>	<b>3,705</b>	<b>149,566</b>
Additions		0	47	7,389	19,539	116	27,091	10,747	945	38,783
Presentation adjustment		0	11	0	-11	0	0	0	0	0
Transfer to non-current assets		0	0	0	0	0	0	13,647	4,650	18,297
Sale/liquidation		0	0	2,167	1,180	96	3,443	0	0	3,443
<b>Balance at</b>	<b>31 December 2018</b>	<b>0</b>	<b>26,220</b>	<b>52,061</b>	<b>85,735</b>	<b>2,291</b>	<b>166,307</b>	<b>302</b>	<b>0</b>	<b>166,609</b>
Depreciation		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at</b>	<b>1 January 2018</b>	<b>0</b>	<b>7,768</b>	<b>21,513</b>	<b>23,408</b>	<b>1,854</b>	<b>54,543</b>	<b>0</b>	<b>0</b>	<b>54,543</b>
Elimination on disposal of assets		0	0	1,668	938	95	2,701	0	0	2,701
Depreciation expense		0	948	3,239	5,757	123	10,067	0	0	10,067
<b>Balance at</b>	<b>31 December 2018</b>	<b>0</b>	<b>8,716</b>	<b>23,084</b>	<b>28,227</b>	<b>1,882</b>	<b>61,909</b>	<b>0</b>	<b>0</b>	<b>61,909</b>
<b>Carrying amount</b>										
<b>Balance at</b>	<b>1 January 2018</b>	<b>0</b>	<b>18,394</b>	<b>25,326</b>	<b>43,979</b>	<b>417</b>	<b>88,116</b>	<b>3,202</b>	<b>3,705</b>	<b>95,023</b>
<b>Balance at</b>	<b>31 December 2018</b>	<b>0</b>	<b>17,504</b>	<b>28,977</b>	<b>57,508</b>	<b>409</b>	<b>104,398</b>	<b>302</b>	<b>0</b>	<b>104,700</b>

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

As at 31 December 2018, the amount of liabilities incurred to purchase property, plant and equipment was PLN 523 thousand. As at 31 December 2018, the gross carrying amount of fully depreciated property, plant and equipment still used by the Group was PLN 14,229 thousand.

#### Assets pledged as security

Note 7.20 deals with property, plant and equipment pledged as security for bank agreements. The Group's liabilities under finance lease and liabilities arising from the financing of property, plant and equipment (note 6.1) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

#### Comparative information:

Property, plant and equipment		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Gross value</b>	<b>1 January 2017</b>	<b>0</b>	<b>26,124</b>	<b>47,520</b>	<b>51,151</b>	<b>2,151</b>	<b>126,946</b>	<b>518</b>	<b>2,967</b>	<b>130,431</b>
Additions		0	38	282	17,006	148	17,474	4,014	3,705	25,193
Transfer to non-current assets		0	0	0	0	0	0	1,330	2,967	4,297
Sale/liquidation		0	0	963	770	28	1,761	0	0	1,761
<b>Balance at</b>	<b>31 December 2017</b>	<b>0</b>	<b>26,162</b>	<b>46,839</b>	<b>67,387</b>	<b>2,271</b>	<b>142,659</b>	<b>3,202</b>	<b>3,705</b>	<b>149,566</b>
Depreciation		Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at</b>	<b>1 January 2017</b>	<b>0</b>	<b>6,817</b>	<b>19,126</b>	<b>19,343</b>	<b>1,729</b>	<b>47,015</b>	<b>0</b>	<b>0</b>	<b>47,015</b>
Elimination on disposal of assets		0	0	713	680	24	1,417	0	0	1,417
Depreciation expense		0	951	3,100	4,745	149	8,945	0	0	8,945
<b>Balance at</b>	<b>31 December 2017</b>	<b>0</b>	<b>7,768</b>	<b>21,513</b>	<b>23,408</b>	<b>1,854</b>	<b>54,543</b>	<b>0</b>	<b>0</b>	<b>54,543</b>

#### Carrying amount

<b>Balance at</b>	<b>1 January 2017</b>	<b>0</b>	<b>19,307</b>	<b>28,394</b>	<b>31,808</b>	<b>422</b>	<b>79,931</b>	<b>518</b>	<b>2,967</b>	<b>83,416</b>
<b>Balance at</b>	<b>31 December 2017</b>	<b>0</b>	<b>18,394</b>	<b>25,326</b>	<b>43,979</b>	<b>417</b>	<b>88,116</b>	<b>3,202</b>	<b>3,705</b>	<b>95,023</b>

## 7.2. Investment property

<b>Gross value</b>		<b>Freehold land</b>	<b>Leasehold</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>TOTAL</b>	<b>Non-current assets under construction</b>	<b>Prepaid non-current assets under construction</b>	<b>TOTAL</b>
<b>Balance at</b>	<b>1 January 2018</b>	<b>126</b>	<b>4,251</b>	<b>4,582</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,959</b>	<b>0</b>	<b>0</b>	<b>8,959</b>
Additions		0	0	12	0	0	0	12	0	0	12
Impairment		0	0	0	0	0	0	0	0	0	0
Sale/liquidation		0	0	0	0	0	0	0	0	0	0
<b>Balance at</b>	<b>31 December 2018</b>	<b>126</b>	<b>4,251</b>	<b>4,594</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,971</b>	<b>0</b>	<b>0</b>	<b>8,971</b>

<b>Depreciation</b>		<b>Freehold land</b>	<b>Leasehold</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>TOTAL</b>	<b>Non-current assets under construction</b>	<b>Prepaid non-current assets under construction</b>	<b>TOTAL</b>
<b>Balance at</b>	<b>1 January 2018</b>	<b>0</b>	<b>1,490</b>	<b>1,878</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,368</b>	<b>0</b>	<b>0</b>	<b>3,368</b>
Elimination on disposal of assets		0	0	0	0	0	0	0	0,00	0	0
Depreciation expense		0	166	172	0	0	0	338	0	0	338
<b>Balance at</b>	<b>31 December 2018</b>	<b>0</b>	<b>1,656</b>	<b>2,050</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,706</b>	<b>0</b>	<b>0</b>	<b>3,706</b>

### Carrying amount

<b>Balance at</b>	<b>1 January 2018</b>	<b>126</b>	<b>2,761</b>	<b>2,704</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,591</b>	<b>0</b>	<b>0</b>	<b>5,591</b>
<b>Balance at</b>	<b>31 December 2018</b>	<b>126</b>	<b>2,595</b>	<b>2,544</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,265</b>	<b>0</b>	<b>0</b>	<b>5,265</b>

The investment property as at 31 December 2018 included the real estate in Kościelisko (plots no. 2001 and 2491). The investment property includes buildings with land and leasehold.

All of the Group's investment property is held either as freehold or leasehold interests.

No impairment losses were recognised by the Group in 2018 due to a change in estimates. The total amount of investment property impairment losses of prior years is PLN 1,770 thousand.

The investment property was measured at purchase price less impairment losses. No revenue from the lease of investment property was generated by the Group in 2018 or 2017. Operating expenses relating to the investment property amounted to PLN 528 thousand in 2018 (PLN 508 thousand in 2017).

**Comparative information:**

<b>Gross value</b>		<b>Freehold land</b>	<b>Leasehold</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>TOTAL</b>
<b>Balance at</b>	<b>1 January 2017</b>	<b>126</b>	<b>4,251</b>	<b>2,371</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,748</b>
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
<b>Balance at</b>	<b>31 December 2017</b>	<b>126</b>	<b>4,251</b>	<b>4,582</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,959</b>

  

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

**Carrying amount**

<b>Balance at</b>	<b>1 January 2017</b>	<b>126</b>	<b>2,927</b>	<b>664</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,717</b>
<b>Balance at</b>	<b>31 December 2017</b>	<b>126</b>	<b>2,761</b>	<b>2,704</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,591</b>

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

No non-current assets held for sale were held by the Group at 31 December 2018 or 31 December 2017.

### 7.4. Intangible assets

#### Structure of intangible assets:

	Balance at 31-12-2018	Balance at 31-12-2017
<b>Acquired concessions, patents, licenses and similar assets, including:</b>	<b>224</b>	<b>573</b>
- Software	224	573
<b>Other intangible assets, including:</b>	<b>8,392</b>	<b>8,514</b>
- Leasehold	8,392	8,514
<b>Total</b>	<b>8,616</b>	<b>9,087</b>

#### Movements in intangible assets:

	Leasehold	Other intangible assets – software	Total
<b>Gross value</b>			
<b>Balance at 1 January 2018</b>	<b>9,341</b>	<b>4,539</b>	<b>13,880</b>
Additions	0	31	31
Sale/liquidation	0	4	4
<b>Balance at 31 December 2018</b>	<b>9,341</b>	<b>4,566</b>	<b>13,907</b>
<b>Amortisation and impairment</b>			
<b>Balance at 1 January 2018</b>	<b>827</b>	<b>3,966</b>	<b>4,793</b>
Amortisation expense	122	380	502
Sale/liquidation	0	4	4
<b>Balance at 31 December 2018</b>	<b>949</b>	<b>4,342</b>	<b>5,291</b>
<b>Carrying amount</b>			
<b>Balance at 1 January 2018</b>	<b>8,514</b>	<b>573</b>	<b>9,087</b>
<b>Balance at 31 December 2018</b>	<b>8,392</b>	<b>224</b>	<b>8,616</b>

**Comparative information:**

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

No impairment losses were recognised by the Group in 2018 or 2017.

### 7.5. Goodwill

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

The goodwill of PRK is assigned in full to the construction activity segment.

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

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

The goodwill of BPK Poznań is fully assigned to design activities.

<b>At cost</b>	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
Goodwill of PRK	31,172	31,172
Goodwill of BPK Poznań	1,474	1,474
Impairment losses (BPK Poznań)	-1,474	-1,474
<b>Balance at the end of the reporting period</b>	<b>31,172</b>	<b>31,172</b>

### Annual goodwill impairment test

The test was carried out using the FCFF approach in a five-year time horizon. According to the Group's principles, the recoverable amount of an asset generating funds was measured at use value.

The recoverable amount was determined using the discounted future cash flows method. The rate of average weighted cost of capital including projected structure and the cost of financing, and the market risks were at 8.2%.

After it had considered external circumstances influencing a long-term market capitalization of the Company below the carrying amount, the Group carried out tests for the impairment of the Company's assets as at 31 December 2018.

The impairment tests carried out at 31 December 2018 according to IAS 36 *Impairment of Assets* revealed no risks to the loss of the carrying amount of the Company's assets.

### Sensitivity to changes in assumptions

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

### 7.6. Investments in subordinates

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

Company name	Core business	Registered office and principal place of business	Interests		Value at historical cost	
			Balance at 31-12-2018	Balance at 31-12-2017	Balance at 31-12-2018	Balance at 31-12-2017
Railway Technology International Sp. z o.o.	Holding activities	Cracow	100%	51%	176	118
<b>Total investments in subordinates</b>					<b>176</b>	<b>118</b>
Allowances for shares of RTI (cumulative)					176	118
<b>Total investments in subordinates net of allowances</b>					<b>0</b>	<b>0</b>

### 7.7. Other financial assets

No other financial assets were held by the Group at 31 December 2018 or 31 December 2017.

### 7.8. Other assets

	Current		Non-current	
	Balance at 31-12-2018	Balance at 31-12-2017	Balance at 31-12-2018	Balance at 31-12-2017
Prepayments	1,029	960	149	0
Other receivables	11	137	0	0
<b>Total</b>	<b>1,040</b>	<b>1,097</b>	<b>149</b>	<b>0</b>

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

### 7.9. Advanced loans

	Balance at 31-12-2018	Balance at 31-12-2017
Loans advanced to related parties	80	66
Loans advanced to other parties	3,080	279
Impairment losses	-347	-335
<b>Total</b>	<b>2,813</b>	<b>10</b>

Advanced loans include principal and interest charged at the end of the reporting period. In the reporting period, the Group granted a loan of PLN 3,200 thousand to a counterparty. The principal plus interest was partially repaid in the reporting period by the counterparty.

### 7.10. Inventories

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
Goods, materials and raw materials	47,987	27,405
Work in progress	534	334
Finished goods	199	199
<b>Total</b>	<b>48,720</b>	<b>27,938</b>

Inventories increased because they were gathered for the purpose of performing 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.

The security for liabilities created on inventories at 31 December 2018 and 31 December 2017 amounted to PLN 4,000 thousand.

### 7.11. Other financial liabilities

	<b>Current</b>		<b>Non-current</b>	
	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
Financial liabilities to the State Treasury	280	280	70	350
Liabilities under dividends	36	36	0	0
<b>Total</b>	<b>316</b>	<b>316</b>	<b>70</b>	<b>350</b>

Financial liabilities to the State Treasury include the liability of BPK Poznań relating to the agreement for turning the company over for paid use.

### 7.12. Obligations under retirement and other benefits

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

Pension and retirement gratuities are paid to the 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:

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
<b>Pension and retirement gratuities, including:</b>	<b>1,123</b>	<b>990</b>
– present amount of obligation at the end of the reporting period	1,123	990
– actuarial gains / (losses) unrecognised at the end of the reporting period	0	0
– past service cost unrecognised at the end of the reporting period	0	0
<b>Obligations to employees</b>	<b>925</b>	<b>1,001</b>

<b>Other employee benefits</b>	<b>23,401</b>	<b>17,419</b>
– provision for unused leaves	4,833	4,372
– provision for bonuses	9,453	6,417
– salaries and wages	4,559	3,390
– social security and other benefits	4,556	3,240
<b>Total obligations under retirement and other benefits</b>	<b>25,449</b>	<b>19,410</b>
including:		
– long-term	1,994	1,888
– short-term	23,455	17,522

Obligations to employees include a long-term obligation under the Company Social Benefits Fund.

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

	<b>Balance at 31-12-2018</b>	<b>Balance at 31-12-2017</b>
Discount rate	2.73%	3.27%
Expected future rise in salaries and wages	2.5%	2.5%

	<b>Period ended 31-12-2018</b>	<b>Period ended 31-12-2017</b>
<b>Present amount of obligation at the beginning of the period</b>	<b>990</b>	<b>992</b>
Interest expense	30	28
Current service cost	110	88
Past service cost	-7	0
Benefits paid	-92	-235
Actuarial (gains) / losses	92	117
<b>Present amount of obligation at the end of the period</b>	<b>1,123</b>	<b>990</b>

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

	<b>Period ended 31-12-2018</b>	<b>Period ended 31-12-2017</b>
Current service cost	110	88
Interest expense	30	28
Actuarial (gains) / losses to be recognised in the period	92	117
Past service cost	-7	0
<b>Costs recognised in statement of comprehensive income</b>	<b>225</b>	<b>233</b>
Amount recognised in profit or loss	133	114
Amount recognised in other comprehensive income (without deferred tax)	92	119

	<b>Period ended 31-12-2018</b>	<b>Period ended 31-12-2017</b>
Actuarial gains (losses) relating to specific benefit schemes	92	119
Deferred tax	-17	-23
<b>Amount recognised in other comprehensive income</b>	<b>75</b>	<b>96</b>

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

**Provision sensitivity analysis**

The table below presents the analysis of sensitivity of provisions for employee benefits as at 31 December 2018 to the key parameters of actuarial model. The first line includes initial provisions. The remaining lines show how the

change in the actuarial model parameter influences the amount of provisions.

PARAMETER / BENEFIT	Retirement gratuity	Pension gratuity	Total
initial provision amounts	1,056	67	1,123
rotation rate -1.0%	1,086	69	1,155
rotation rate +1.0%	1,030	64	1,094
probability of drawing pensions -0.5	1,061	56	1,117
probability of drawing pensions +0.5	1,052	79	1,131
technical discount rate -1.00%	1,153	70	1,223
technical discount rate +1.00%	973	63	1,036
rise in bases	0	0	0
remuneration at the Company -1.0%	972	63	1,035
remuneration at the Company +1.0%	1,152	70	1,222

### 7.13. Financial instruments

The following table sets out the carrying amounts of all financial instruments of the Group with a breakdown into particular classes and categories of assets and liabilities as at 31 December 2018.

#### Balance at 31 December 2018

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through:		Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
		Profit or loss	Other comprehensive income		
Retentions on construction contracts (before discount)	14,100	0	0	0	21,177
Trade receivables	192,693	0	0	0	0
Other financial liabilities	0	0	0	0	386
Advanced loans	2,813	0	0	0	0
Cash and cash equivalents	81,723	0	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	35,723
Trade payables	0	0	0	0	188,156
<b>Total</b>	<b>291,329</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>245,442</b>

In the reporting period, the Group classified financial documents according to IFRS 9 effective since 1 January 2018 using a modified retrospective approach without the restatement of comparative information.

#### Balance at 31 December 2017

Classes of financial instruments	Available-for-sale financial assets	Financial assets at fair value through profit or loss		Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
		Loans and receivables			
Retentions on construction contracts (before discount)	0	0	14,774	0	14,070
Trade receivables	0	0	116,820	0	0
Receivables from the state budget other than corporate income tax	0	0	438	0	0
Other financial liabilities	0	0	0	0	666
Advanced loans	0	0	10	0	0
Cash and cash equivalents	0	117,748	0	0	0

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

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

	<b>Balance at 31-12-2018</b>
Age structure	
– less than 1 year	217,633
– 1 - 3 years	20,529
– 3 - 5 years	2,217
– 5 years +	5,063
<b>Total</b>	<b>245,442</b>

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

**Derivative instruments**

No derivative instrument transactions were entered into by the Group in 2018 or 2017.

## 7.14. Transactions with related parties

### Sales transactions

The following sales transactions were entered into between the related parties in the reporting period:

	<b>Receivables</b>		<b>Payables</b>	
	<b>Balance at</b>		<b>Balance at</b>	
	<b>31-12-2018</b>	<b>31-12-2017</b>	<b>31-12-2018</b>	<b>31-12-2017</b>
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

  

	<b>Revenue</b>		<b>Purchases</b>	
	<b>Period ended</b>		<b>Period ended</b>	
	<b>31-12-2018</b>	<b>31-12-2017</b>	<b>31-12-2018</b>	<b>31-12-2017</b>
RTI	3	3	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	468
<b>Total</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>468</b>

  

	<b>Advanced loans</b>		<b>Financial income (interest)</b>	
	<b>Balance at</b>		<b>Period ended</b>	
	<b>31-12-2018</b>	<b>31-12-2017</b>	<b>31-12-2018</b>	<b>31-12-2017</b>
RTI	21	10	1	0
RTI Germany	59	56	1	1
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>80</b>	<b>66</b>	<b>2</b>	<b>1</b>

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

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

On 10 April 2018, Wiesław Nowak and ZUE entered into the sales agreement whereby Wiesław Nowak sold his shares in RTI for PLN 58 thousand.

On 13 April 2018, ZUE and RTI signed a loan agreement whereby RTI was granted a special-purpose loan of PLN 10 thousand to be repaid by 20 December 2018. The loan was disbursed on 20 April 2018.

On 19 June 2018, ZUE and RTI Germany signed an annex to the loan agreement of 31 May 2016 whereby the loan and interest repayment date was extended until 20 June 2019.

On 20 December 2018, ZUE and RTI signed an annex covering the loan agreement of 26 May 2017, the loan agreement of 7 December 2017 and the loan agreement of 13 April 2018. Under the annex, the repayment date for each loan was extended until 20 December 2019.

On 7 January 2019, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 4 thousand to be repaid by 20 December 2019. The loan was disbursed on 11 January 2019.

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

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

Below please find the information about major proceedings before the court or another authority concerning the Group's claims and liabilities.

### Major pending court proceedings concerning liabilities:

#### Court case concerning the following project: "Construction of the tram depot in Poznań:"

On 7 February 2019, the Company received the suit for payment of 7 January 2019 filed with the District Court of Poznań by Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu sp. z o.o. (MPK, the "Contracting Authority," the "Plaintiff") against ZUE S.A. and Elektrobudowa S.A. of Katowice. In their suit MPK demanded that ZUE and Elektrobudowa pay on a joint and several basis the total amount of approx. PLN 20.2m as contractual penalties plus statutory default interest and the costs of proceedings.

The suit was based by the Plaintiff on the contract of 13 July 2011 between MPK and the Consortium of ZUE and Elektrobudowa for the construction of the FRANOWO tram depot in Poznań (the "Contract"). The Company informed about the conclusion of the Contract in the current report 39/2011. The works under the Contract were performed and completed by the Consortium in June 2015.

The Company believed that the claims enforced under the suit were groundless because there was no fault on part of the Company or the failure to cooperate properly with the Plaintiff during the performance of the Contract. Accordingly, the Company replied to the suit and questioned both the legitimacy and amount of the Plaintiff's claims. The case was referred by the Court for mediation with the consent of all parties.

As a precaution, the Company created a financial provision relating to the said litigation. The Company informed thereof in the current report 7/2017 of 6 February 2017.

### Major pending court proceedings concerning claims:

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

On 14 August 2014, the Petitioner (BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) filed a lawsuit against the Defendant (PKP Polskie Linie Kolejowe S.A.). The Petitioner sued the Defendant for the contractual penalty of PLN 72,835,010.99 plus interest from 18 August 2012 until payment (with PLN 18,521,943.30 plus interest from 18 August 2012 until payment attributable to the Company) for the Defendant's delay in the handover of the Construction Site. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POLiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

The Defendant questioned the claims made by the Petitioner both in terms of their amount and legitimacy and filed a motion to dismiss the action. The Defendant filed a claim that the contractual fee charged by the Petitioners was too high in case the said motion for the dismissal was rejected. On 11 December 2017, the District Court of Warsaw delivered the judgment whereby it ordered that PKP PLK S.A. pay ZUE S.A. PLN 1,852,194.33 plus statutory interest from 18 August 2012 to the date of payment and dismissed the remaining claims. ZUE S.A. appealed against the judgment and demanded that all claims be considered. The Defendant also appealed against the judgment and demanded that all claims of the Petitioner be dismissed.

In addition, on 29 September 2016, the Petitioner (PORR Polska Infrastruktura; i.e. former BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) sued the Defendant (PKP Polskie Linie Kolejowe S.A.) for PLN 11,506,921.00 (out of which PLN 2,926,209.77 plus statutory interest was payable to ZUE) after additional works had been carried out and expenses had been incurred during the extended completion time. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POLiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

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

On 30 December 2016, the consortium of:

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

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

The litigation value (the "Amount") was PLN 39.3m and included:

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

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

On 11 March 2019, the Court delivered the partial judgment whereby it ordered that PKP Polskie Linie Kolejowe S.A. pay ZUE S.A. PLN 347,126.79 plus statutory default interest from 21 December 2016 to the date of payment and dismissed ZUE's claim concerning the payment of PLN 283,213.65 plus statutory interest from 21 December 2016.

#### **7.16. Tax settlements**

Tax settlements and other areas of activity may be inspected by the administrative authorities authorised to impose harsh fines and penalties. The applicable laws are unclear and inconsistent because there are no references to established regulations in Poland. Common differences in opinions on legal interpretation of tax regulations both amongst state authorities and between state authorities and enterprises give rise to uncertainty and conflicts. Accordingly, the tax risk in Poland is much higher than that in the countries with more mature tax systems.

Tax settlements may be inspected within five years of the end of the year the tax was paid in. Additional tax liabilities may be imposed on the Group as a result of such inspections.

No significant and countable tax risks were recognised by the Group at 31 December 2018 or 31 December 2017.

## 7.17. Compensation of key management personnel

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

	(PLN '000)			
	Term	Compensation	Term	Compensation
<b>Management Board</b>				
Wiesław Nowak	01.2018-12.2018	1,334	01.2017-12.2017	1,190
Anna Mroczek	01.2018-12.2018	637	01.2017-12.2017	520
Jerzy Czeremuga	01.2018-12.2018	568	01.2017-12.2017	437
Maciej Nowak	01.2018-12.2018	618	01.2017-12.2017	518
Marcin Wiśniewski	01.2018-12.2018	544	01.2017-12.2017	462
<b>Proxies</b>				
Barbara Nowak	01.2018-12.2018	n/a	01.2017-5.06.2017	125
Magdalena Lis	01.2018-12.2018	410	6.06.2017-12.2017	132
<b>Supervisory Board</b>				
Mariusz Szubra	01.2018-12.2018	12	01.2017-12.2017	12
Magdalena Lis	01.2018-12.2018	n/a	01.2017-5.06.2017	94
Barbara Nowak	01.2018-12.2018	204	6.06.2017-12.2017	144
Bogusław Lipiński	01.2018-12.2018	12	01.2017-12.2017	49
Piotr Korzeniowski	01.2018-12.2018	12	01.2017-12.2017	12
Michał Lis	01.2018-12.2018	154	01.2017-12.2017	116
<b>Total</b>		<b>4,505</b>		<b>3,811</b>

The compensation of the Management Board members is determined by the Supervisory Board and the compensation 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 compensation of Ms. Barbara Nowak and Mr. Michał Lis is the compensation paid under employment contracts plus the compensation 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 or managing personnel.

## 7.18. Operating lease arrangements

### Group as lessee

Operating lease relates to the following leasehold property:

- Undeveloped property in Cracow, district 25, comprising the plots no. 121/1, 121/3, 121/4, 122/1, 122/2, 137/2, 162/1, 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; and
- Undeveloped property in Kościelisko comprising the plots no. 2001 and 2491 – Land and mortgage registers no. 10662 and 10740.

### 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 31-12-2018	Year ended 31-12-2017
Minimum lease payments	366	366
<b>Total</b>	<b>366</b>	<b>366</b>

#### Liabilities under lease payments

	Balance at 31-12-2018	Balance at 31-12-2017
Not later than 1 year	366	366
Later than 1 year and not later than 5 years	1,464	1,464
Later than 5 years	24,150	24,516
<b>Total</b>	<b>25,980</b>	<b>26,346</b>

#### 7.19. Investment liabilities

No agreements relating to capital expenditure were concluded at 31 December 2018 or 31 December 2017.

#### 7.20. Contingent assets and contingent liabilities

##### Contingent assets

	Balance at 31-12-2018	Balance at 31-12-2017
Bonds	74,700	36,949
Guarantees	55	54
Bills of exchange	2,140	5,066
<b>Total</b>	<b>76,895</b>	<b>42,069</b>

Contingent assets in the form of bonds and guarantees include the bonds provided by banks and insurance companies for the benefit of the Group to secure its claims relating to subcontracted construction services and the repayment of received advances.

##### Contingent liabilities

	Balance at 31-12-2018	Balance at 31-12-2017
Bonds	597,356	485,785
Guarantees	24,951	17,044
Bills of exchange	364,811	339,382
Mortgages	54,259	54,259
Pledges	23,927	17,048
<b>Total</b>	<b>1,065,304</b>	<b>913,518</b>

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

Contingent liabilities in the form of guarantees secure the bonds and credits provided to the Group companies by banks and insurance 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.

Registered pledges were established in connection with annexes to the agreements between ZUE and BGŻ BNP PARIBAS and PEKAO whereby limits had been raised and the agreement with BGK. The pledged assets include wagons, pile driver and maintenance train. In addition, a registered pledge was established in connection with the credit agreement with mBank entered into by a subsidiary. The pledge is on inventories.

### 7.21. Discontinued operations

No operations were discontinued within the meaning of IFRS 5 in 2018 or the comparative period.

## 8. Other notes to the financial statements

### 8.1. Use of International Financial Reporting Standards

#### 8.1.1. Statement of compliance

The consolidated financial statements of the Capital Group for the year ended 31 December 2018 and the comparative information for the financial year ended 31 December 2017 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 2018:

- **IFRS 9 "Financial Instruments"** – endorsed by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – endorsed by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts"** – Use of **IFRS 9 "Financial Instruments"** in conjunction with **IFRS 4 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2018 or the moment IFRS 9 "Financial Instruments" is used for the first time);
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** as part of amendments following from the review of IFRS 2014-2016 (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 amendments following from the review of IFRS 2014-2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).

The influence of IFRS 9 and IFRS 15 has been discussed in section 8.1.5.

The remaining new standards or amendments to the standards do not have any considerable influence on the consolidated financial statements of the Group.

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

When approving these consolidated financial statements, the Group 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 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation** (effective for annual periods beginning on or after 1 January 2019);
- **IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments following from the review of IFRS 2015-2017** (effective for annual periods beginning on or after 1 January 2019).

The Group did not elect the early application of the foregoing new standards or amendments to the existing standards.

The Group believes that except for IFRS 16, the remaining amendments to the standards or interpretations will not have any considerable influence on the Group's consolidated financial statements. The influence of IFRS 16 has been discussed in section 8.1.6.

#### **8.1.4. Standards and interpretations adopted by the IASB but not yet approved by the EU**

The International Financial Reporting Standards (IFRS) as endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) excluding the following standards, amendments to the standards and interpretations not yet approved for use as at 27 March 2019:

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"** (the effective date has been deferred by the IASB indefinitely);
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IFRS 3 "Business Combinations"** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 1 and IAS 8: "Definition of Material"** (effective for annual periods beginning on or after 1 January 2020).

#### **8.1.5. Changes in applied accounting principles**

##### **IFRS 15 "Revenue from Contracts with Customers"**

IFRS 15 has been applied by the Group since 1 January 2018 and superseded IAS 11 "Construction Contracts" and IAS 18 "Revenue." The core principle of IFRS 15 is that an entity recognises 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.

##### **Revenue from construction contracts**

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.

Since 1 January 2018, the Group has recognised revenue from unfinished construction service according to the five-step model and it uses an input method in compliance with a modified retrospective approach.

There is only one performance obligation in construction services provided by the Group. Accordingly, the allocation of the transaction price to the performance obligation does not require any estimating.

Given the nature of the Group's operations, the categories of revenue earned by the Group and the provisions of contracts with customers, a retrospective use of IFRS 15 has not influenced the amount of the Group's equity at the date of initial implementation of IFRS 15; i.e. 1 January 2018.

The Group recognises revenue from construction and design activities as revenue from construction contracts.

#### **Input method**

Input method uses expenditures (costs) incurred by the Group relative to total estimated expenditures (costs) to determine the extent of progress toward completion.

#### **Zero-profit method**

If the Group is not able to reasonably measure the outcome of a performance obligation but expects to recover the costs incurred in satisfying the performance obligation, the Group applies a zero-profit method and recognises revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

#### **Recognition of expected losses**

When it is probable that total contract costs will exceed total contract revenue, a loss provision is recognised by the Group according to IAS 37.

#### **Practical use of progress measurement methods**

An input method has been selected on the basis of the Company's operations.

- Individual contract measurement stages:
  - a) Determination of a change in contract status – contracts in progress and completed contracts;
  - b) Determination of planned revenue adjustments;
  - c) Update of revenue budget (twice a year);
  - d) Update of cost budget (twice a year);
  - e) Calculation of invoiced revenue;
  - f) Calculation of direct and indirect costs incurred in connection with the performance of construction contracts;
  - g) Calculation of general construction costs incurred (entity's general costs and general construction costs);
  - h) Measurement of progress toward completion under a contract and recognition of revenue with an input method; and
  - i) Measurement of long-term construction contracts where invoices for construction services contain prices lower or higher than agreed.

In the input method, the percentage of completion is defined as the ratio of actual costs to estimated (budgeted) costs required to perform the contract. Contract budgets are prepared for each construction contract. Budgets are updated twice a year on the basis of April- and October-end closings. The stage of completion of a contract is determined on the basis of contract budgets by calculating the ratio of the costs actually incurred for the work performed to date to the estimated total costs of the contract. Contracts, which have been signed but do not have approved budgets, are measured with a zero-profit method.

#### **Presentation of the statements**

Included in assets "Measurement of long-term construction contracts" are the amounts due and receivable from customers (contracting authorities) in connection with all construction work in progress in respect of which recognised revenue exceeds the amounts due and payable under partial invoices.

Included in liabilities "Measurement of long-term construction contracts" are the amounts due and payable to suppliers in connection with all construction work in progress in respect of which the amounts invoiced for the work performed under the contract exceed recognised revenue.

The note Construction contracts includes financial information about long-term contracts measured with an input method.

Detailed presentation is contained in the Comparability of financial information.

The implementation of IFRS 15 affected the accounting for uninstalled materials where control transfers to the customer and the transfer should not be treated as the satisfaction of performance obligation. Under the standard, the Group recognises revenue only to the extent of costs incurred and the related margin is transferred to other materials and services. The revenue and costs for 2018 would be lower by PLN 278m if reported by the Group according to IAS 18 because of different times of recognition of revenue and costs relating to uninstalled materials. Accordingly, it would not have any material influence on the Group's profit or loss.

### **IFRS 9 "Financial Instruments"**

IFRS 9 "Financial Instruments," which replaces IAS 39 "Financial Instruments – Recognition and Measurement," has been applied by the Group since 1 January 2018.

IFRS 9 includes amended guidance for the classification and measurement of financial assets, impairment and hedging.

The Group has applied a modified retrospective approach without the restatement of comparative information.

### **Classification and measurement**

The classification of financial assets depends on the entity's business model for managing its financial assets and the contractual cash flows of the financial assets.

- The financial asset can be measured at amortized cost if both criteria are met:
  - a) The financial asset is held in a business model whose objective is to hold financial assets to collect contractual cash flows; and
  - b) The contractual terms of the financial asset give rise to cash flows at specified dates that are solely payments of principal and interest on the principal amounts outstanding.
- The financial asset is measured at fair value through other comprehensive income if both criteria are met:
  - a) The financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
  - b) The contractual terms of the financial asset give rise to cash flows at specified dates that are solely payments of principal and interest on the principal amounts outstanding.

The financial asset is measured at fair value through profit or loss, unless it is measured at amortized cost or at fair value through other comprehensive income.

The Group's financial assets measured at amortized cost include:

- Trade receivables;
- Deposits relating to supplies and services;
- Advanced loans; and
- Cash and cash equivalents.

The table below sets out changes in the classification of financial assets resulting from the implementation of IFRS 9:

Financial assets	Categories of financial assets	
	IAS 39	IFRS 9
Retentions on construction contracts (before discount)	Loans and receivables	Measured at amortised cost
Trade receivables	Loans and receivables	
Advanced loans	Loans and receivables	
Cash and cash equivalents	Measured at fair value through profit or loss	

Under IFRS 9 financial instruments are initially measured at fair value. The fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration paid or received). Given a diverse range of financial instruments as a result of the classification, in the case of a financial asset or

financial liability not at fair value through profit or loss, the initial value includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Receivables (including the measurement of contracts) under IFRS 15 without a significant financing component are initially recognised at their transaction price.

Most of the requirements under IAS 39 relating to the classification and measurement of financial liabilities have been carried over unchanged to IFRS 9.

## Impairment

IFRS 9 introduces new impairment requirements – the expected credit loss model. Unlike the model applied under IAS 39 according to which credit losses are recognised once there has been an incurred loss event, the expected credit loss model is based on the calculation of expected losses. The expected credit losses are weighted by the probability that the obligation will not be performed.

The Group establishes allowances on the basis of expected credit losses likely to occur over the life of an instrument at an amount equal to 12-month expected credit losses.

If a credit risk related to the instrument increases significantly at the end of the reporting period, an allowance is measured by the Group at an amount equal to expected credit losses over the entire lifetime.

Trade receivables are the most important item of financial assets in the consolidated financial statements of the Group, which is governed by the rules of calculating the expected credit losses.

The Group has applied a simplified model of recognising loss allowances for trade receivables based on historical data concerning credit losses adjusted, where appropriate, for the influence of information about the future.

In the case of trade receivables, a loss allowance is measured by the Group at an amount of expected credit losses for the entire expected lifetime of the financial asset.

The new impairment model introduced by the Group resulted in a change in the amount of loss allowances for the Group's receivables at 1 January 2018 when compared with the amount following from the policy previously applied by the Group. The impact of the change is discussed in the note 4.1. Accordingly, the two items of loss allowances have been presented by the Group since 2018:

- Loss allowances for trade receivables in connection with the increase of credit risk; and
- Loss allowances for trade receivables – initial for expected credit losses.

## Hedge accounting

No hedge accounting is applied by the Group.

### 8.1.6. Implementation of IFRS 16

#### Use of IFRS 16 for the first time

The International Financial Reporting Standard 16 Leases (IFRS 16) was issued 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.

IFRS 16 introduces a single lessee accounting model eliminating the distinction between operating and finance leases and requires a lessee to recognise the right-of-use asset and a lease liability, except for short-term leases and low value asset leases.

#### Impact of IFRS 16 on the Group's financial statements

Implementing IFRS 16 with a modified retrospective approach.

The Group intends to apply IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application (modified approach). The date of the initial application of IFRS 16 for the Group is 1 January 2019. The Group has applied a modified approach so there is no requirement to restate

comparative financial information. Instead, the Group intends to recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance at the date of initial application.

The change of the definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time. The Group uses the definition of a lease and the related guidelines specified in IFRS 16 for all lease contracts signed or amended on or after 1 January 2019 regardless of whether the Group is a lessee or lessor under the contract.

### Practical solutions used by the Group

When applying IFRS 16 for the first time, the Group intends to use the following practical solutions approved of by the standard:

1. Not to recognise operating leases with a lease term less than 12 months of 1 January 2019, which will be treated as short-term leases;
2. Not to recognise leases where the underlying asset has a low value; i.e. PLN 20 thousand;
3. To use a single discount rate to a portfolio of leases with similar characteristics;
4. To exclude initial direct costs from the measurement of the right of use asset at the date of initial application;
5. To use knowledge, such as in determining the lease term if the contract contains options to extend or terminate the lease.

### Exemptions offered by practical solutions:

Short-term lease	1,392
Lease of low value assets	90
<b>Total exemptions</b>	<b>1,482</b>

As at 1 January 2019, the discount rates applied by the Company to determine the value of discounted lease payments range from 3.04% to 6.3% for PLN- and EUR-denominated contracts (depending on the term of the lease).

### Impact on the Group's accounting

Summary of impact of IFRS 16 on the lessee's accounting:

1. Application of IFRS 16 to lease contracts previously classified as operating leases under IAS 17 will cause the recognition of right-of-use assets and lease liabilities.
2. Non-current assets held under finance lease contracts currently presented under property, plant and equipment will be presented under right-of-use assets.
3. Lease liabilities currently classified as finance lease contracts under IAS 17 and disclosed under loans and bank credits and other financing sources will be presented in (short- and long-term) lease liabilities.
4. The disclosure requirements contained in IAS 40 will apply to right-of-use assets that meet the definition of investment property.

### Right-of-use assets recognised as at 1 January 2019 (contracts which contain a lease)

The Group is a lessee of cars, apartments, land and leasehold land.

Lease of cars	683
Lease of apartments, land and office equipment	1,781
Leasehold land	4,127
<b>Total</b>	<b>6,591</b>

### Right-of-use assets recognised as at 1 January 2019 that meet the definition of investment property

A right-of-use asset is presented separately by the Group according to IAS 40.

Leasehold land in investment property	1,359
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### Right-of-use liabilities recognised as at 1 January 2019 (contracts which contain a lease)

Lease of cars	683
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Lease of apartments, land and office equipment	1,781
Leasehold land	4,127
Leasehold land in investment property	1,359
<b>Total</b>	<b>7,950</b>

Contracts previously recognised as finance lease

For the leases classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is the carrying amount of lease asset and lease liability immediately before that date measured applying IAS 17.

Presentation at 1 January 2019:

Right-of-use liabilities	27,816
Right-of-use assets	51,543

PLN 27,816 thousand includes vehicles, machines and technical equipment leased under IAS 17.

Right-of-use assets – reclassified from intangible assets

Leasehold land	7,925
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## Impact of the implementation of IFRS16 on the financial statements

At the date of application of IFRS 16, the Group will recognise the right-of-use assets of PLN 7,950 thousand and the lease liabilities of PLN 7,950 thousand.

The table below presents the influence of changes on the consolidated statement of financial position:

	According to IFRS 16	Approved	Effect of changes
	Balance at 2019-01-01	Balance at 2018-12-31	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	53,157	104,700	-51,543
Investment property	6,624	5,265	1,359
Intangible assets	691	8,616	-7,925
Right-of-use assets	66,059	0	66,059
<b>Total non-current assets</b>	<b>190,448</b>	<b>182,498</b>	<b>7,950</b>
			0
<b>Total current assets</b>	<b>447,064</b>	<b>447,064</b>	<b>0</b>
<b>Total assets</b>	<b>637,512</b>	<b>629,562</b>	<b>7,950</b>
<b>LIABILITIES</b>			
<b>Total equity</b>	146,748	146,748	0
<b>Non-current liabilities</b>			
Long-term loans and bank credits	0	14,815	-14,815
Long-term lease liabilities	21,280	0	21,280
<b>Total non-current liabilities</b>	<b>42,867</b>	<b>36,402</b>	<b>6,465</b>
Short-term loans and bank credits	7,907	20,908	-13,001
Short-term lease liabilities	14,486	0	14,486
<b>Total current liabilities</b>	<b>447,897</b>	<b>446,412</b>	<b>1,485</b>
<b>Total liabilities</b>	<b>490,764</b>	<b>482,814</b>	<b>7,950</b>
<b>Total equity and liabilities</b>	<b>637,512</b>	<b>629,562</b>	<b>7,950</b>

## 8.2. Important accounting principles

### 8.2.1. Going concern

The financial statements have been prepared assuming that the Group will continue in operational existence for the foreseeable future, i.e. for at least 12 months of the end of the reporting period.

The key factors influencing the Group's ability to continue in operational existence include the factors with a direct impact on the Company's financial standing, such as liquidity, which is conditional upon the performance of contracts with proper, non-deteriorating margins, market situation connected with the prices of raw and other materials and logistic services, and the cost of labour and the market environment associated with the difficulty of defining real, out-of-court contract indexation.

In 2018, the Group recognised sales revenue of PLN 832,725 thousand, gross profit of PLN (-) 56,038 thousand, operating loss of PLN (-) 77,890 thousand, pre-tax loss of PLN (-) 77,304 thousand and net loss of PLN (-) 62,585 thousand. Following the review of the construction contract budgets (the basis for the preparation of the financial statements) carried out twice a year, the Management Board of the Company decided to reduce the projected margins for certain railway construction contracts performed for PKP PLK S.A. For a number of contracts, the projected margins would drop to less than zero. This had a decisive influence on the presented financial result for

2018. The reduction of margins referred to the contracts won mainly in 2016 and 2017. The reasons for the situation included, first and foremost, the obstacles unrelated to the Parent Company (such as undefined legal status of plots, delayed administrative procedures, unavailable job sites, technical conditions – including surveying documentation and the condition of facilities - different from the terms of reference, results of expert opinions, changes to applicable laws or expectations of local communities), which prevented the performance of the said contracts according to the initial assumptions accepted at the tendering phase on the basis of the documentation provided to the contractors. Based on the said assumptions, material and financial schedules were prepared by the Parent Company whereby the Company entered into master agreements for the supply of key building materials, provided staff and equipment, gathered the offers submitted by subcontractors and service providers and prepared the funds required to finance the project. The evaluation of an influence of the obstacles on a project critical path entailed significant changes to the material and financial schedules in order to adjust them to the conditions different from the initial assumptions. The foregoing circumstances were accompanied by a radical increase in the costs of construction contract performance, including the costs of labour, building materials, services provided by subcontractors and logistic services. The increase could not be predicted at the tendering phase and influenced the entire industry.

The Parent Company's Management Board analysed the projected cash flows and decided that the amount thereof was sufficient to enable the Parent Company to continue its operations within the same scope.

The Parent Company's profit or loss was recognised based on the budgets of the contracts held by the Parent Company in its backlog. The budgets were prepared on the basis of the following assumptions: prices of materials, services and labour at the date of preparation of the financial statements, costs of labour following from the terms of employment applicable at the date of preparation of the financial statements, technical and technological assumptions for the contract performance, ability to obtain all necessary administrative decisions (including permits) by the dates specified in the schedules, availability of job sites, track closures and other means of access by the required dates and within the required scope, solvency and proper performance of contracts by the key business partners. The Group's business activity is inherently connected to the risks (including the risks connected with the abovementioned assumptions) whose occurrence is impossible to predict. The Management Board identify and describe the risks in their reports.

At the end of the reporting period, the Group's current assets amounted to PLN 447,064 thousand, including cash of PLN 81,723 thousand. At the date of preparation of this report, the Group held available credit lines for the total amount of PLN 82,100 thousand.

At the date of preparation of this report, the Group's backlog contains the contracts worth approx. PLN 1.9bn. The Parent Company also awaits the outcome of tender procedures of about PLN 619m. The Group continues to expand its backlog selectively by considering the costs and increasing, *inter alia*, the share in urban contracts.

No real contract indexation on the infrastructure construction market accompanied by the unexpected increase of contract performance costs make contractors bear the entire risk relating to the costs that are difficult to assess. Contracting authorities and contractors' representatives talk about the indexation of contracts and, consequently, the situation of general contractors. It is important also from the point of view of the broad market perspectives relating to the markets where the Group operates. The railways modernisation programme for the total amount of approx. PLN 70bn is being carried out and a considerable number of tasks still awaits the announcement of tenders. In addition, another railway investment programme has been announced.

Accordingly, the Management Board of ZUE state that there are no significant going concern risks at the end of the reporting period and these financial statements have been prepared assuming that the Parent Company and the Group will continue in operational existence for the foreseeable future.

### **8.2.2. Comparability of financial information and corrections of prior period errors**

No changes in the presentation of financial information have been made in the comparative periods, except for the following changes.

Prior period errors were corrected and the presentation of financial statements was changed in the reporting period to ensure a better presentation of information about the influence of certain types of transactions on the Group's economic and financial situation. The comparative information was accordingly restated.

In the Sales revenue and the Cost of sales items, the correction concerned undeveloped materials. The said materials were recognised in the calculation of the progress of contracts and it was in breach of IAS 18. The correction involved the reduction of the costs and revenue by the same amount.

In order to make the consolidated financial statements clearer, reinvoices and damages have been presented by the Group companies jointly (other operating income and expenses according to their netted balance).

The table below presents the influence of changes on the consolidated statement of comprehensive income:

Continuing operations	Restated	Approved	Effect of changes
	12 months ended 31-12-2017	12 months ended 31-12-2017	
Sales revenue	415,870	465,316	-49,446
Cost of sales	396,778	446,224	-49,446
<b>Gross profit (loss)</b>	<b>19,092</b>	<b>19,092</b>	<b>0</b>
General and administrative expenses	19,753	19,753	0
Other operating income	4,084	5,909	-1,825
Other operating expenses	1,782	3,607	-1,825
<b>Operating profit (loss)</b>	<b>1,641</b>	<b>1,641</b>	<b>0</b>
Financial income	1,933	1,933	0
Financial expenses	2,679	2,679	0
<b>Pre-tax profit (loss)</b>	<b>895</b>	<b>895</b>	<b>0</b>
Corporate income tax	662	662	0
<b>Net profit (loss) from continuing operations</b>	<b>233</b>	<b>233</b>	<b>0</b>
<b>Net profit (loss)</b>	<b>233</b>	<b>233</b>	<b>0</b>

In these consolidated financial statements and the comparative information, the Group presented the item named: "Measurement of long-term construction contracts" and made the following annotation:

- Included in assets are the amounts due and receivable from customers (contracting authorities) in connection with all construction work in progress in respect of which the recognised revenue exceeds 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 recognised revenue.

Previously the Group recognised receivables under contracts (measurement) under Trade and other receivables and payables under contracts (measurement) under Trade payables.

The table below presents the influence of changes on the consolidated statement of financial position:

ASSETS	Restated	Approved	Effect of changes
	Balance at 31-12-2017	Balance at 31-12-2017	
<b>Non-current assets</b>			
<b>Total non-current assets</b>	<b>158,593</b>	<b>158,593</b>	<b>0</b>
<b>Current assets</b>			
Trade and other receivables	117,940	192,148	-74,208
Measurement of long-term construction contracts	74,208	0	74,208
<b>Total current assets</b>	<b>343,659</b>	<b>343,659</b>	<b>0</b>
<b>Total assets</b>	<b>502,252</b>	<b>502,252</b>	<b>0</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Total equity attributable to shareholders of the parent</b>	<b>209,510</b>	<b>209,510</b>	<b>0</b>
Equity attributable to non-controlling interests	-91	-91	0
<b>Total equity</b>	<b>209,419</b>	<b>209,419</b>	<b>0</b>
<b>Non-current liabilities</b>			<b>0</b>

<b>Total non-current liabilities</b>	<b>25,472</b>	<b>25,472</b>	<b>0</b>
<b>Current liabilities</b>			
Trade and other payables	223,562	224,286	-724
Measurement of long-term construction contracts	724	0	724
<b>Total current liabilities</b>	<b>267,361</b>	<b>267,361</b>	<b>0</b>
<b>Total liabilities</b>	<b>292,833</b>	<b>292,833</b>	<b>0</b>
<b>Total equity and liabilities</b>	<b>502,252</b>	<b>502,252</b>	<b>0</b>

### 8.2.3. Preparation basis

The consolidated financial statements have been prepared in accordance with the historic cost convention, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair value according to the accounting policy below.

The accounting principles (policies) used in the preparation of these consolidated financial statements are consistent with the accounting principles (policies) used in the preparation of the consolidated financial statements of the Group for the financial year ended 31 December 2017, except for the new or amended standards and interpretations effective for annual periods beginning on or after 1 January 2018, which have been discussed below, and presentation changes discussed in the note 8.2.2.

The most important accounting principles applied by the Group are presented below.

### 8.2.4. Consolidation rules

#### Investments in subsidiaries

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

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

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

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

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of assets (including goodwill), liabilities and non-controlling interests. Amounts recognized in other comprehensive income in relation to disposed subsidiary are reclassified to profit or loss. The fair value of any investment retained in the former subsidiary is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

#### Investments in associates

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

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

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

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

#### **Loss of control**

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

#### **Transactions with minority shareholders not resulting in change of control**

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

#### **Goodwill**

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

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

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

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

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

### 8.2.5. Segment reporting

The Group's reporting is based on operating segments.

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

- Construction;
- Design; and
- Sales.

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

### 8.2.6. Recognition of revenue from long-term construction contracts – accounting policy applied since 1 January 2018

IFRS 15 has been applied by the Group since 1 January 2018 and superseded IAS 11 "Construction Contracts" and IAS 18 "Revenue." The core principle of IFRS 15 is that an entity recognises 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.

The Group's revenue:

- revenue from construction contracts;
- revenue from the provision of services; and
- revenue from the sale of goods, raw and other materials.

The Group recognises revenue from design and construction activities as revenue from construction contracts.

#### Revenue from construction contracts

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

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

Since 1 January 2018, the Group has recognised revenue from unfinished construction service according to the five-step model and it uses an input method in compliance with a modified retrospective approach.

There is only one performance obligation in construction services provided by the Group. Accordingly, the allocation of the transaction price to the performance obligation does not require any estimating.

#### Input method

Input method uses expenditures (costs) incurred by the Group relative to total expected expenditures (costs) to determine the extent of progress toward completion.

#### Zero-profit method

If the Group is not able to reasonably measure the outcome of a performance obligation but expects to recover the costs incurred in satisfying the performance obligation, the Group applies a zero-profit method and recognises revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

#### Recognition of expected losses

When it is probable that total contract costs will exceed total contract revenue, a loss provision is recognised by the Group according to IAS 37.

#### Practical use of progress measurement methods

An input method has been selected on the basis of the Group's operations.

Individual contract measurement stages:

- a) Determination of a change in contract status – contracts in progress and completed contracts;
- b) Determination of planned revenue adjustments;
- c) Update of revenue budget (twice a year);
- d) Update of cost budget (twice a year);
- e) Calculation of invoiced revenue;
- f) Calculation of direct and indirect costs incurred in connection with the performance of construction contracts;
- g) Calculation of general construction costs incurred (entity's general costs and general construction costs);
- h) Measurement of progress toward completion under a contract and recognition of revenue with an input method; and
- i) Measurement of payables and receivables where invoices for construction services contain prices lower or higher than agreed.

In the input method, the percentage of completion is defined as the ratio of actual costs to estimated (budgeted) costs required to perform the contract. Contract budgets are prepared for each construction contract. Budgets are updated twice a year on the basis of April- and October-end closings. The stage of completion of a contract is determined on the basis of contract budgets by calculating the ratio of the costs actually incurred for the work performed to date to the estimated total costs of the contract. Contracts, which have been signed but do not have approved budgets, are measured with a zero-profit method.

#### **8.2.7. Foreign currencies**

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

Foreign exchange differences arising on translation are recognised in financial income (expenses) or, in circumstances defined by accounting principles (policy), capitalised in the value of assets.

#### **8.2.8. Borrowing costs**

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

All other borrowing costs are recognised, subject to item 8.2.6, in profit or loss in the period in which they are incurred. Borrowing costs relating to construction contracts are debited directly to the cost of the Group's operating activities.

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

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

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

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

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

The Group pays retirement gratuities according to the Labour Code and makes a provision for the present amount of liabilities under these benefits. The payments are recognised in profit or loss in a way enabling the spread of these costs over the entire term of employees' employment with the Group. The amount of the provision is determined by an independent actuary using the projected unit method.

The provisions for employee benefits also include the provisions for leaves and bonuses.

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

Other employee benefits are paid according to the labour law and company rules. The Group also covers the costs of trainings in occupational health and safety and private medical care for its employees.

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

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

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

#### Current tax

The tax currently payable is calculated based on taxable profit (tax base) 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 the items of income or expense that will never be taxable. The Group's liability for current tax is calculated using tax rates applicable in the year.

#### Deferred tax

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

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

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

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

#### Current and deferred tax for the year

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

### 8.2.11. Property, plant and equipment

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

Non-current assets and non-current assets under construction are initially recognised at purchase price or production cost, including financing costs less impairment losses.

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 8.2.14. Effects of the impairment of non-current assets and non-current assets under construction are recognised in other operating expenses.

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

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

Each component of property, plant and equipment, whose purchase price or production cost is considerable when compared with the purchase price or production cost of the entire item, is depreciated separately.

### 8.2.12. Investment property

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

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

Investment properties, which meet the criteria of being classified as held for sale or disclosed in a pool held for sale, are measured according to the rules set forth in note 8.2.15.

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

### 8.2.13. Intangible assets

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

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

The expenses associated with the purchase of leasehold are also recognised by the Group as intangible assets. The expenses associated with the purchase of such rights on the secondary market (from other entities) and the expenses associated with conferring such rights by relevant state authorities are recognised as intangible assets and amortised over the period in which such rights may be exercised by the Group. 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 Group does not own any intangible assets whose useful lives are indefinite. Intangible assets with definite useful lives are amortised on a straight-line basis. The following useful lives are used for particular intangible assets:

Item	Useful lives
Licences for software	2 – 10 years
Leasehold	25 – 99 years

Intangible assets are tested for impairment if there are indications of impairment and any impairment is determined at the end of each reporting period. Rules governing the determining of impairment are set out in note

8.2.14. Effects of the impairment of intangible assets and their amortisation are carried to other operating expenses.

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

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

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

#### **8.2.14. Impairment of tangible and intangible assets excluding goodwill**

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

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

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

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

#### **8.2.15. 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.

### 8.2.16. Long-term financial assets, including investments in related parties

Long-term financial assets 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.

### 8.2.17. Leasing

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

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

The lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant interest rate on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's accounting policy on borrowing costs as set out in note 8.2.8.

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

### 8.2.18. Inventories

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

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

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

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

Inventory disbursement is recorded in accordance with the principles of specific identification and is recognised in the cost of sales. Write-downs on inventories arising on prudent valuation and write-downs for items in excess of anticipated demand are recognised as an expense of the period. Reversal of write-downs is recognised as a decrease in the expense of the period.

### 8.2.19. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for expected credit losses. Where the effect of the time value of money is material, the balance of receivables is determined by discounting projected future cash flows to their present value using the discount rate, which reflects current market assessments of the time value of money. If a discounting approach is used, the increase in receivables as a result of the passage of time is recognised as financial income.

Trade and other receivables are divided by the Group into the following groups:

- a) Trade receivables;
- b) Receivables from the state budget other than corporate income tax;
- c) Advance payments; and
- d) Other receivables.

Other receivables include advance payments for remuneration, purchases, other (accommodation), accounting for: business trips (overall), mileage compensation limits, credit cards, shortages or damage, shortages charged on employees, treatment of surpluses, other accounts payable-bid bond and determining the Company Social Benefits Fund.

The Group recognises allowances on the basis expected credit losses likely to occur over the life of an instrument at an amount equal to 12-month expected credit losses.

If a credit risk related to the instrument increases significantly at the end of the reporting period, an allowance is measured by the Group at an amount equal to expected credit losses over the entire lifetime.

### 8.2.20. Cash and cash equivalents

Cash and short-term deposits recognised in the balance sheet include cash at bank and in hand and short-term deposits which have a maturity of three months or less.

### 8.2.21. Trade and other payables

Short-term trade and other payables are recognised at an amount due.

Trade and other payables are divided by the Group into the following groups:

- a) Trade payables;
- b) Liabilities to the state budget other than corporate income tax;
- c) Accruals;
- d) Advance payments; and
- e) Other payables.

Other payables include employees' life insurance premiums, court seizures, train tickets, contributions to organisations, contributions to trade unions, contributions to the Employee Mutual Assistance Fund, sports and recreation cards, medical care for employees, medical care for the company, etc.

Accruals include provisions for contract costs.

Other non-financial liabilities include, in particular, liabilities to revenue office relating to VAT and liabilities under received advances to be settled by the supply of goods, services or non-current assets. Other non-financial liabilities are recognised at an amount due.

### 8.2.22. Financial assets

#### Classification and measurement

The classification of financial assets depends on the business model for managing financial assets and characteristics of contractual cash flows.

A financial asset is measured at amortised cost if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is to hold the assets in order to collect the contractual cash flows; and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or fair value through other comprehensive income.

The following are included by the Group in financial assets measured at amortised cost:

- Trade receivables;
- Retentions on supplies and services;
- Advanced loans; and
- Cash and cash equivalents.

Under IFRS 9 financial instruments are initially measured at fair value. The fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration paid or received). Given a diverse range of financial instruments as a result of the classification, in the case of a financial asset or financial liability not at fair value through profit or loss, the initial value includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Trade receivables under IFRS 15 without a significant financing component (i.e. the measurement of long-term construction contracts) are initially recognised at their transaction price.

### Impairment

IFRS 9 introduces new impairment requirements – the expected credit loss model. Unlike the model applied under IAS 39 according to which credit losses are recognised once there has been an incurred loss event, the expected credit loss model is based on the calculation of expected losses. The expected credit losses are weighted by the probability that the obligation will not be performed.

The Group establishes allowances on the basis of expected credit losses likely to occur over the life of an instrument at an amount equal to 12-month expected credit losses.

If a credit risk related to the instrument increases significantly at the end of the reporting period, an allowance is measured by the Group at an amount equal to expected credit losses over the entire lifetime.

Trade receivables are the most important item of financial assets in the Group's financial statements, which is governed by the rules of calculating the expected credit losses.

The Group has applied a simplified model of recognising loss allowances for trade receivables based on historical data concerning credit losses adjusted, where appropriate, for the influence of information about the future.

In the case of trade receivables covered by IFRS 15 (i.e. the measurement of long-term construction contracts), a loss allowance is measured by the Group at an amount of expected credit losses for the entire expected lifetime of the financial asset.

The new impairment model introduced by the Group has not resulted in any material change in the amount of loss allowances for the Group's receivables at 1 January 2018 when compared with the amount following from the policy previously applied by the Group.

### Hedge accounting

No hedge accounting is applied by the Group.

## 8.2.23. Financial liabilities and equity instruments issued by the Group

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

The Group classifies all financial liabilities into one of the following categories:

- a) financial liabilities measured at fair value through profit or loss; or
- b) financial liabilities measured at amortised cost.

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading or defined as measured at fair value through profit or loss.

A financial liability is classified as held for trading if:

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

A financial liability other than held for trading may be designated as measured 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 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 IFRS 9, the entire contract (asset or liability) may be designated as an item as at fair value through profit or loss.

Financial derivative instruments are recognised under financial liabilities measured at fair value through profit or loss.

The following are included by the Group in financial liabilities measured at amortised cost:

- Retentions on construction contracts;
- Loans and bank credits and other financing sources; and
- Trade and other payables.

#### **8.2.24. Provisions**

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

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

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

Provisions are charged to the cost of sales, general and administrative expenses or other operating expenses depending on the type of a provision and an organisational unit within the Group the provision relates to.

After it has been used, the provision is released by reducing the cost of sales, general and administrative expenses or other operating expenses.

A provision is used for what it has been initially created.

### 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 estimates relate, *inter alia*, to:

1. Impairment of goodwill (note no. 7.5.)
2. Useful economic lives of non-current assets (note no. 8.2.11. and 8.2.13.)
3. Loss allowances for receivables (note no. 4.1.)
4. Provisions (note no. 3.3.)
5. Measurement of long-term construction contracts (note no. 3.1.)
6. Deferred income tax (note no. 2.7.)
7. Contingent assets and contingent liabilities (note no. 7.20.)
8. Uncertainty over tax settlements (note no. 7.16.)

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 8.2.11 and 8.2.13, the Group verifies useful economic lives of tangible and intangible assets at the end of each annual reporting period.

Depreciation rates are determined on the basis of expected useful economic lives of property, plant and equipment and intangible assets. The Group verifies the useful economic lives every year based on current estimates.

#### 8.3.3. Loss allowances for receivables

The Group recognises loss allowances on the basis of expected credit losses likely to occur over the life of an instrument at an amount equal to 12-month expected credit losses.

If a credit risk related to the instrument increases significantly at the end of the reporting period, an allowance loss is measured by the Group at an amount equal to expected credit losses over the entire lifetime.

Trade receivables are the most important item of financial assets in the consolidated financial statements of the Group, which is governed by the rules of calculating the expected credit losses.

The Group has applied a simplified model of recognising loss allowances for trade receivables based on historical data concerning credit losses adjusted, where appropriate, for the influence of information about the future.

#### 8.3.4. Provisions

### Provisions for litigations

The employees and the Management Board of the Company 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 consolidated financial statements of the Group, the amount of the provisions for litigations and potential risks relating thereto.

### Provisions for employee benefits

Provisions for employee benefits include the provisions for leaves, bonuses and retirement and pension gratuities.

(Long-term) liabilities under employee benefits contain the amount of a long-term liability under the company social benefits fund.

### Provisions for warranty claims

Provisions for warranty claims are charged to the cost of a contract based on the amount of direct expenses that have been involved. Provisions for warranty claims are created at the Group 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 consolidated statement of financial position as long- or short-term provisions.

### Provision for loss on contracts

Provision for a loss on contracts are recognised if budgeted costs exceed the total revenue under the contract. The anticipated loss is immediately recognised as an expense.

A provision for losses is created to bring profit or loss to the value of budgeted loss. Provisions for expected losses are charged to the cost of contract. If it is not used, the provision is released (after contract completion) by reducing the cost of sales. They are presented in the consolidated statement of financial position as 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 Group under the percentage-of-completion method. Contract budgets are prepared for each construction contract. Budgets are updated twice a year on the basis of month-end closes for April and October. The stage of completion of a contract is determined on the basis of contract budgets by calculating the proportion that contract costs incurred for the work performed to date bear to the estimated total costs of the contract. When contracts are signed but their budgets not approved, the contracts are measured using the zero-profit method.

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

#### **8.3.6. Deferred tax assets**

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

#### **8.3.7. Contingent assets and contingent liabilities**

Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial report of the period in which the change occurs.

Contingent liabilities are not recognised by the Group in the consolidated statement of financial position. The Group discloses information about a contingent liability in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

### 8.3.8. Uncertainty over tax settlements

Regulations on VAT, corporate income tax and social security charges are frequently amended. Accordingly, there are no appropriate points of reference, there are few established precedents which could be used and interpretations are inconsistent. The applicable regulations are ambiguous and cause differences in opinions on legal interpretation of tax regulations both amongst state authorities and between state authorities and enterprises.

Tax settlements and other areas of activity (e.g. customs or foreign exchange issues) may be inspected by the authorities authorised to impose harsh fines and penalties and all additional liabilities resulting from the inspection must be paid with interest. Accordingly, the tax risk in Poland is greater than that in countries with more mature tax systems.

Consequently, the amounts presented and disclosed in financial statements may change in the future as a result of the final decision of a fiscal control authority.

The amendments were introduced to the Tax Ordinance as of 15 July 2016 to include the provisions of the General Anti-Abuse Rules (GAAR). The GAAR is intended to prevent the creation and use of artificial legal arrangements to avoid paying taxes in Poland. Under the GAAR, tax avoidance is defined as an activity carried out first of all to achieve a tax advantage which is contrary in the circumstances to the subject matter and objective of a tax act. According to the GAAR, the activity does not result in achieving a tax advantage if the course of action was artificial. Any (i) unjustified split of operations; (ii) involvement of intermediaries without any economic or business justification; (iii) elements that compensate or cancel each other; and (iv) other similar activities may be treated as an argument in favour of the existence of artificial activities governed by the GAAR. The new regulations will require a lot more judgement in assessing the tax implications of individual transactions.

The GAAR clause should be applied to the transactions carried out after it came into force and to the transactions carried out before it came into force in respect of which advantages were or still are being after the effective date. The implementation of the abovementioned regulations will enable the Polish fiscal control authorities to question the legal arrangements and schemes carried out by taxpayers, such as group restructuring and reorganization.

The Company recognizes and measures current and deferred income tax assets and liabilities by applying the requirements of IAS 12 *Income Taxes* based on the taxable profit (tax loss), tax base, tax losses carried forward and unused tax reliefs and tax rates taking into account the assessment of uncertainty over tax settlements.

### 8.3.9. Revisions to estimates

The following revisions to estimates occurred in 2018:

1/ Construction contracts accounted for using percentage-of-completion method – the revision was influenced by the review of the construction contract budgets. Following the review, the Management Board of the Company decided to reduce the margins for certain railway construction contracts performed for PKP PLK S.A. The decision referred mainly to the contracts won in 2016 and 2017; and

2/ Useful economic lives of non-current assets – the revision was influenced by the annual verification of useful economic lives.

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

On 22 January 2019, the Company entered into the agreement with CaixaBank S.A. Polish Branch with registered office in Warsaw. The Agreement provided for the bank guarantee limit of up to PLN 30m (the Limit) within which the Company could apply for bid bonds (up to the Limit), advance payment bonds (up to PLN 10m), performance bonds and defects liability bonds (up to PLN 10m). **(Current report 1/2019)**

Following the conclusion of the contract of 6 February 2019 between the Company and PKP PLK for the provision of design services and completion of works on the Warszawa Włochy – Ożarów Mazowiecki section, the railway line no. 3, in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16: Improvement of capacity of E 20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the Łowicz Local Traffic Control Centre (LCS) section” of the net value of PLN 12m, the total net value of the contracts between the companies within the PKP PLK Group and the companies within the ZUE Group signed since 12 October 2018 amounted to approx. PLN 25.7m. **(Current report 3/2019)**

On 7 February 2019, the Company's Management Board learnt from Elektrobudowa S.A. with registered office in Katowice (Elektrobudowa) about the suit for payment dated 7 January 2019. The suit was filed with the District Court of Poznań by Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu sp. z o.o. (MPK). In their suit MPK demanded that ZUE and Elektrobudowa pay on a joint and several basis the total amount of approx. PLN 20.2m as contractual penalties plus default interest and the costs of proceedings. The suit was based by MPK on the contract of 13 July 2011 between MPK and the Consortium of ZUE and Elektrobudowa for the construction of the FRANOWO tram depot in Poznań. The Company informed about the conclusion of the contract in the current report 39/2011. The works under the contract were performed and completed by the Consortium in June 2015. **(Current report 4/2019)**

On 1 March 2019, the Company received a signed annex to the multi-purpose revolving credit limit with Bank Polska Kasa Opieki S.A. with registered office in Warsaw (PEKAO) (the Annex). The Company informed about the said agreement in the current reports 20/2017 and 74/2017. Under the Annex, the term of the limit (PLN 100m) was extended until 30 November 2019 and the use thereof was limited to bank guarantees (up to the maximum amount of the Limit) of any type (including, in particular, bid bonds, performance bonds and defects liability bonds) provided at the Company's request to secure the contracts carried out by the Company. **(Current report 5/2019)**

On 8 March 2018, the Company published preliminary financial results for 2018. **(Current report 6/2019)**

On 15 March 2019, the Company learnt about the submission of the most economically advantageous tender in the tender procedure for the project named: "Completion of construction works relating to the reconstruction of track and overhead contact system in the Wyszyńskiego hub and Szarych Szeregów Square." The Contracting Authority: The City of Szczecin. Net value of the tender submitted by the Company: PLN 36.5m. Gross value of the tender submitted by the Company: PLN 44.9m. Project completion date: 450 calendar days of the contract conclusion date. **(Current report 8/2019)**

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

The consolidated financial statements were approved by the Management Board on 27 March 2019.

## 11. Signatures

The financial statements have been prepared by:

Ewa Bosak Chief Accountant

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Signatures of the management personnel:

Wiesław Nowak Management Board President

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Anna Mroczek Management Board Vice-President

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Jerzy Czeremuga Management Board Vice-President

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Maciej Nowak Management Board Vice-President

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Marcin Wiśniewski Management Board Vice-President

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Cracow, 27 March 2019