



FINANCIAL STATEMENTS OF ZUE S.A.
FOR THE YEAR ENDED 31 DECEMBER 2018

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

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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 (<i>Handelsregister B, HRB</i>) maintained by the District Court in Dresden (<i>Amtsgericht Dresden</i>) under entry number HRB 36690. Share capital of EUR 25,000 paid up in full. Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
ZUE Group, Group, Capital Group	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Journal of Laws of 2017, item 1577, as amended).

Share capital details as at 31 December 2018.

Selected financial information of ZUE S.A.

Main items of the 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	181,913	42,305	158,317	37,958
Current assets	414,705	96,443	316,965	75,994
Total assets	596,618	138,748	475,282	113,952
Equity	146,242	34,010	210,366	50,437
Non-current liabilities	34,480	8,019	23,837	5,715
Current liabilities	415,896	96,719	241,079	57,800
Total equity and liabilities	596,618	138,748	475,282	113,952

Main items of the 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	763,757	178,996	359,041	84,586
Cost of sales	825,792	193,534	343,350	80,889
Gross profit (loss) on sales	-62,035	-14,538	15,691	3,697
Operating profit (loss)	-79,973	-18,743	1,521	358
Gross profit (loss)	-78,714	-18,448	1,504	354
Net profit (loss) from continuing operations	-64,049	-15,011	839	198
Total comprehensive income	-64,124	-15,028	743	175

Main items of the 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	-21,487	-5,036	16,069	3,786
Cash flows from investing activities	-17,668	-4,141	34,495	8,127
Cash flows from financing activities	2,384	559	4,765	1,123
Total net cash flows	-36,771	-8,618	55,329	13,036
Cash at the beginning of the year	116,144	27,846	61,207	13,835
Cash at the end of the year	79,404	18,466	116,144	27,846

Rules adopted to translate selected financial information into EUR:

Item	Exchange rate	Exchange rate on 31-12-2018	Exchange rate on 31-12-2017	Exchange rate on 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

Statement of comprehensive income

(PLN '000)
Restated

Continuing operations	Note no.	12 months ended 31-12-2018	12 months ended 31-12-2017
Sales revenue	2.1., 8.2.2.	763,757	359,041
Cost of sales	2.2., 8.2.2.	825,792	343,350
Gross profit (loss)		-62,035	15,691
General and administrative expenses	2.2., 8.2.2.	18,076	16,001
Other operating income	2.3., 8.2.2.	889	3,392
Other operating expenses	2.4., 8.2.2.	751	1,561
Operating profit (loss)		-79,973	1,521
Financial income	2.5., 8.2.2.	2,212	2,173
Financial expenses	2.6., 8.2.2.	953	2,190
Pre-tax profit (loss)		-78,714	1,504
Corporate income tax	2.7.	-14,665	665
Net profit (loss) from continuing operations		-64,049	839
Net profit (loss)		-64,049	839
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		-75	-96
Actuarial gains (losses) relating to specific benefit schemes	2.8	-75	-96
Other total net comprehensive income		-75	-96
Total comprehensive income		-64,124	743
Number of shares		23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)		-2.78	0.04
Total comprehensive income per share (PLN)		-2.78	0.03

Statement of financial position

		Balance at	Restated Balance at
	Note no.	31-12-2018	31-12-2017
ASSETS			
Non-current assets			
Property, plant and equipment	7.1.	101,815	92,004
Investment property	7.2.	8,642	9,095
Intangible assets	7.4.	8,115	8,594
Goodwill	7.5.	31,172	31,172
Investments in subordinates	7.6.	221	210
Retentions on construction contracts	3.2.	9,463	9,439
Deferred tax assets	2.7.	22,485	7,803
Total non-current assets		181,913	158,317
Current assets			
Inventories	7.10.	37,311	24,239
Trade and other receivables	4.1., 8.2.2.	188,084	105,746
Measurement of long-term construction contracts	3.1., 8.2.2.	103,400	65,524
Retentions on construction contracts	3.2.	2,938	4,393
Current tax assets	2.7.	0	0
Loans advanced	7.9.	2,804	10
Other assets	7.8.	764	909
Cash and cash equivalents	6.4.	79,404	116,144
Total current assets		414,705	316,965
Total assets		596,618	475,282

		Balance at	Restated Balance at
	Note no.	31-12-2018	31-12-2017
EQUITY AND LIABILITIES			
Equity			
Share capital	5.1.	5,758	5,758
Share premium account	5.3.	93,837	93,837
Treasury shares	5.4.	-2,690	-2,690
Retained earnings	5.5.	49,337	113,461
Total equity		146,242	210,366
Non-current liabilities			
Long-term loans and bank credits and other financing sources	6.1.	14,781	11,205
Retentions on construction contracts	3.2.	10,721	5,755
Liabilities under employee benefits	7.13.	1,036	856
Long-term provisions	3.3.	7,872	5,671
Other liabilities	7.12.	70	350
Total non-current liabilities		34,480	23,837
Current liabilities			
Trade and other payables	4.2., 8.2.2.	335,883	205,950

Measurement of long-term construction contracts	3.1., 8.2.2.	6,980	475
Retentions on construction contracts	3.2.	8,099	6,663
Short-term loans and bank credits and other financing sources	6.1.	12,963	8,773
Other financial liabilities	7.11.	36	36
Liabilities under employee benefits	7.13.	22,103	16,184
Current tax liabilities	2.7.	0	0
Short-term provisions	3.3.	29,832	2,998
Total current liabilities		415,896	241,079
Total liabilities		450,376	264,916
Total equity and liabilities		596,618	475,282

Statement of changes in equity

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	1 January 2018	5,758	93,837	-2,690	113,461	210,366
Payment of dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Buy-back of shares		0	0	0	0	0
Profit (loss)		0	0	0	-64,049	-64,049
Other net comprehensive income		0	0	0	-75	-75
Balance at	31 December 2018	5,758	93,837	-2,690	49,337	146,242

Balance at	1 January 2017	5,758	93,837	-2,690	112,718	209,623
Payment of dividend		0	0	0	0	0
Issue of shares		0	0	0	0	0
Issue costs		0	0	0	0	0
Buy-back of shares		0	0	0	0	0
Profit (loss)		0	0	0	839	839
Other net comprehensive income		0	0	0	-96	-96
Balance at	31 December 2017	5,758	93,837	-2,690	113,461	210,366

Statement of cash flows

(PLN '000)

	12 months ended 31-12-2018	12 months ended 31-12-2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	-78,714	1,504
Adjustments for:		
Depreciation and amortisation	10,760	9,753
Foreign exchange gains / (losses)	-42	392
Interest and share in profit (dividends)	550	624
(Gain) / loss on disposal of investments including release of investment property allowance	1	-2,369
Gain / (loss) on redemption of debt instruments	0	-302
Operating profit (loss) before changes in working capital	-67,445	9,602
Change in receivables, measurement of contracts and retentions on construction contracts	-118,936	-101,093
Change in inventories	-13,072	-18,043
Change in provisions and liabilities under employee benefits	35,041	-3,236
Change in payables, measurement of contracts and retentions on construction contracts, excluding loans and bank credits and other financing sources	142,778	128,530
Change in accrued expenses	147	289
Income tax paid / tax refund	0	20
NET CASH FROM OPERATING ACTIVITIES	-21,487	16,069
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	891	381
Purchase of property, plant and equipment and intangible assets	-16,027	-21,330
Sale / (purchase) of financial assets in other entities	-58	0
Sale / (purchase) of financial assets in related entities	-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	-3,210	-14
Repayment of granted loans	500	4
Interest received	247	217
Gain / (loss) on redemption of debt instruments	0	309
NET CASH FROM INVESTING ACTIVITIES	-17,668	34,495
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	17,319	15,282
Repayment of loans and bank credits	0	0
Decrease in finance lease liabilities and liabilities relating to financing of property, plant and equipment	-14,122	-9,944
Interest paid	-813	-572
Other cash provided by / (used in) financing activities – dividends	0	-1
NET CASH FLOWS FROM FINANCING ACTIVITIES	2,384	4,765
TOTAL NET CASH FLOWS	-36,771	55,329
Net foreign exchange gains / (losses)	31	-392
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	116,144	61,207
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	79,404	116,144

Notes to the financial statements as at 31 December 2018

1. General information

1.1. Information about the Company

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

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

Composition of ZUE's Management and Supervisory Boards at the date of preparation of these financial statements:

Management Board:

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

Supervisory Board:

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

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. Activities of the Company

ZUE is one of major players in the urban and railway transport infrastructure sector.

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

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

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

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

For reporting purposes, ZUE uses a uniform accounting policy for all areas of operation and identifies one aggregate segment, namely construction activity.

1.3. Functional and reporting currency

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

2. Notes to the statement of comprehensive income

2.1. Revenue

	Period ended 31-12-2018	Period ended 31-12-2017
Revenue from construction contracts	746,026	343,836
Revenue from the rendering of services	15,069	11,816
Revenue from the sale of goods, raw and other materials	2,662	3,389
Total	763,757	359,041

The Company operated in Poland both in 2018 and 2017. In addition, the Company generated revenue of PLN 198 thousand from the provision of equipment services in Slovakia.

The largest portion of revenue was derived from long-term construction contracts.

The Company presents the entire revenue in one reporting segment, namely construction activity.

ZUE's sales revenue in 2018 was PLN 763,757 thousand and increased year-on-year by 87% and by PLN 25,6 516 thousand when compared with revenue reported at the end of the third quarter of 2018. In the fourth quarter of 2018, the Company generated 34% of annual revenue.

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	556,653

	Period ended 31-12-2017
Counterparty A	167,671
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	-200	426
Depreciation and amortization	10,760	9,753
Consumption of materials and energy, including:	377,200	153,083
- consumption of materials	369,359	147,273
- consumption of energy	7,841	5,810
Contracted services	354,129	114,031
Costs of employee benefits	86,983	61,943
Taxes and charges	1,645	1,600
Other expenses	11,812	16,755
Value of goods and materials sold	1,539	1,760
Total	843,868	359,351

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.

	Period ended 31-12-2018	Period ended 31-12-2017
Cost of sales	825,792	343,350
General and administrative expenses	18,076	16,001
Total	843,868	359,351

ZUE's general and administrative expenses between 1 January and 31 December 2018 stood at PLN 18,076 thousand – up by 13% when compared with ZUE's general and administrative expenses in 2017. General and administrative expenses include the costs of tender procedures, for instance bid bonds of PLN 416 thousand.

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

Depreciation and amortisation

	Period ended 31-12-2018	Period ended 31-12-2017
Depreciation of property, plant and equipment	9,808	8,755

Amortisation of intangible assets	487	533
Depreciation of investments in real property	465	465
Total	10,760	9,753

2.3. Other operating income

	Period ended 31-12-2018	Period ended 31-12-2017
Gain on disposal of assets	138	169
Gain on disposal of non-current assets	138	169
Other operating income	751	3,223
Damages and penalties	0	244
Release of allowances of receivables	38	501
Refund of the costs of court proceedings	585	64
Release of write-downs of inventories	39	22
Release of allowances of investment property	0	2,200
Other	89	192
Total	889	3,392

In order to make the financial statements clearer, reinvoices and damages have been jointly presented by ZUE (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 Company received a refund of the costs of court proceedings.

2.4. Other operating expenses

	Period ended 31-12-2018	Period ended 31-12-2017
Loss on disposal of assets	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses	751	1,561
Donations	28	17
Damages and penalties	267	0
Allowances on receivables	135	1,225
Costs of litigations	260	266
Other	61	53
Total	751	1,561

In order to make the financial statements clearer, reinvoices and damages have been jointly presented by ZUE (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.

2.5. Financial income

	Period ended 31-12-2018	Period ended 31-12-2017
Interest income	721	1,339
Interest on bank deposits	425	218
Interest on loans	99	8
Interest on receivables	197	1,113
Other financial income	1,491	834

Foreign exchange gains	0	0
Discount of long-term items	1,269	209
Realisation of financial instruments	0	309
Guarantees	222	312
Other	0	4
Total	2,212	2,173

In order to make the financial statements clearer, reinvoices have been jointly presented by ZUE (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.

2.6. Financial expenses

	Period ended 31-12-2018	Period ended 31-12-2017
Interest expenses	842	796
Interest on finance lease liabilities	172	215
Interest on liabilities relating to financing of property, plant and equipment	641	357
Interest on trade and other payables	29	224
Other financial expenses	111	1,394
Foreign exchange losses	41	575
Discount of long-term items	0	537
Allowance for investments in related parties	58	0
Other	12	282
Total	953	2,190

In order to make the financial statements clearer, reinvoices have been jointly presented by ZUE (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.

2.7. Corporate income tax

Corporate income tax recognised in statement of comprehensive income

	Period ended 31-12-2018	Period ended 31-12-2017
Current income tax	0	-20
Deferred tax	-14,665	685
Total tax expense/income	-14,665	665

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

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

Income tax according to effective interest rate

	Period ended 31-12-2018	Period ended 31-12-2017
Gross profit (loss)	-78,714	1,504
Income tax at the applicable rate of 19%	-14,956	286

Effect of tax recognition:	7,276	-286
Use of tax losses brought forward	0	216
- Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	13,377	9,728
- Revenue not classified as revenue under tax regulations and taxable revenue that is not balance sheet revenue	6,101	9,798
Revaluation of deferred tax assets (current year loss)	7,680	0
Deferred tax	-14,665	685
Income tax adjustments	0	0
Income tax paid /(tax refund) on income earned abroad	0	-20
Income tax according to effective tax rate	-14,665	665
Effective tax rate	19%	44%

Current tax assets and liabilities

	Balance at 31-12-2018	Balance at 31-12-2017
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	0	0

Deferred tax balance

	Balance at 31-12-2018	Balance at 31-12-2017
Deferred tax balance at the beginning of the year	7,803	8,465
Temporary differences relating to deferred tax assets:	38,324	22,091
Provisions for expenses and accruals	18,573	9,423
Discount of receivables	249	371
Operating lease liabilities	1,480	112
Write-downs	1,143	1,156
Bonds and insurances settled over time	1,711	2,109
Tax work in progress	13,389	8,585
Measurement of long-term contracts	1,326	91
Other	453	244
Temporary differences relating to deferred tax liabilities:	31,173	21,942
Measurement of long-term contracts	19,646	12,450
Difference between the carrying and tax amount of property, plant and equipment and intangible assets	11,020	9,104
Discount of payables	488	370
Other	19	18
Unused tax losses and other tax credits:	15,334	7,654
Tax losses	15,334	7,654

Total temporary differences relating to deferred tax assets:	53,658	29,745
Total temporary differences relating to deferred tax liabilities:	31,173	21,942
Deferred tax balance at the end of the year	22,485	7,803
Change in deferred tax, including:	14,682	-662
- recognised in income	14,665	-685
- 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
Amount recognised in other comprehensive income	75	96

2.9. Operating segments

The Company identifies one aggregate reporting segment, namely construction activity.

3. Contracts, retentions and provisions

3.1. Construction contracts

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

Selected items

	31-12-2018	31-12-2017
Revenue from long-term construction contracts	716,486	316,314
Costs of long-term construction contracts	759,494	310,031
Gross profit (loss) on long-term contracts	-43,008	6,283

	Balance at 31-12-2018	Balance at 31-12-2017
Assets (selected items)	132,382	90,919
- Measurement of long-term construction contracts	103,400	65,524
- Advance payments for contracts	16,581	11,563
- Retentions on construction contracts retained by customers	12,401	13,832
Liabilities (selected items)	193,320	125,425
- Measurement of long-term construction contracts	6,980	475
- Provisions for contract costs	54,809	28,737
- Advance payments for contracts	75,007	75,126
- Retentions on construction contracts retained for suppliers	18,820	12,418
- Provisions for warranty claims	9,816	8,252
- Provisions for expected losses on contracts	27,888	417

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

	Balance at 31-12-2018	Balance at 31-12-2017
Retained by customers – to be repaid after 12 months	9,463	9,439
Retained by customers – to be repaid within 12 months	2,938	4,393
Total retentions on construction contracts retained by customers	12,401	13,832
Retained for suppliers – to be repaid after 12 months	10,721	5,755
Retained for suppliers – to be repaid within 12 months	8,099	6,663
Total retentions on construction contracts retained for suppliers	18,820	12,418

The construction contracts and work-for-hire contracts entered into by ZUE provide for an obligation to provide performance bonds and defects liability bonds in the form of 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 they 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)

	Balance at 31-12-2018	Balance at 31-12-2017
Discount of long-term retentions on construction contracts retained by customers	239	335
Discount of long-term retentions on construction contracts retained for suppliers	1,395	942

Discount of long-term retentions

	Balance at 31-12-2018	Balance at 31-12-2017
Discount of long-term retentions on construction contracts retained by customers	1,309	1,955
Discount of long-term retentions on construction contracts retained for suppliers	1,395	942

	Balance at 31-12-2018	Balance at 31-12-2017
Financial income from the discount of retentions	1,009	0
Financial expenses from the discount of retentions	0	328
Deferred tax	209	-62
Net effect on the statement of comprehensive income	890	-266

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
Total past due retentions on construction contracts (gross)	292	293
Write-downs	-292	-293
Total past due retentions on construction contracts (net)	0	0

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
Long-term provisions:	6,527	3,580	308	217	-674	8,908	
Provisions for employee benefits	856	181	1	0	0	1,036	Liabilities under employee benefits (long-term)
Provisions for warranty claims	5,671	3,399	307	217	-674	7,872	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	13,117	44,097	12,245	2,139	674	43,504	
Provisions for employee benefits	10,119	15,379	11,546	280	0	13,672	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,581	10	699	622	674	1,944	Short-term provisions
Provision for loss on contracts	417	28,708	0	1,237	0	27,888	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	19,644	47,677	12,553	2,356	0	52,412	

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

Provisions for employee benefits include the provisions for leaves, bonuses and 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
Long-term provisions:	8,296	1,846	128	59	-3,428	6,527	
Provisions for employee benefits	740	116	0	0	0	856	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,556	1,730	128	59	-3,428	5,671	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	15,656	17,431	11,930	11,468	3,428	13,117	
Provisions for employee benefits	11,686	12,832	11,251	3,148	0	10,119	Liabilities under employee benefits (short-term)
Provisions for warranty claims	3,221	291	679	3,680	3,428	2,581	Short-term provisions

Provision for loss on contracts	749	4,308	0	4,640	0	417	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	23,952	19,277	12,058	11,527	0	19,644	

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	183,411	103,145
Loss allowances for trade receivables in connection with the increase of credit risk	-16,101	-13,280
Loss allowances for trade receivables – initial for expected credit losses	-60	0
Advance payments	16,581	11,563
Other receivables	4,253	4,318
Total trade and other receivables	188,084	105,746

The Company 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
Not past due receivables	160,665	70,893
Receivables that are past due but not impaired	6,645	18,972
1-30 days	323	17,540
31-60 days	4,624	198
61-90 days	196	58
91-180 days	345	0
181-360 days	0	1
360 + days	1,157	1,175
Past due receivables for which allowances were recognized	16,101	13,280
1-30 days	1,173	128
31-60 days	168	392
61-90 days	1	167
91-180 days	1,345	67
181-360 days	726	926
360 + days	12,688	11,600
Total trade receivables (gross)	183,411	103,145
Allowances for trade receivables	-16,101	-13,280
Total trade receivables (net)	167,310	89,865

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 38 thousand and the recognition of allowances of PLN 135 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from debit notes issued by the Company for the penalties and damages that were not the Company'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
Total	147,395

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

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

4.2. Trade and other payables

	Balance at 31-12-2018	Balance at 31-12-2017
Trade payables	174,985	86,200
Liabilities to the state budget other than corporate income tax	30,798	15,538
Accruals	55,020	28,944
Other payables	73	142
Advance payments	75,007	75,126
Total trade and other payables	335,883	205,950

The items include:

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

Ageing analysis of trade payables

	Balance at 31-12-2018	Balance at 31-12-2017
Not past due payables	135,781	71,695
Past due payables	39,204	14,505
1-30 days	38,942	14,367
31-60 days	55	1
61-90 days	148	0
91-180 days	0	0
181-360 days	0	41
360 + days	59	96
		22

Total trade payables	174,985	86,200
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5. Equity

5.1. Share capital

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

Share capital as at 27 March 2019

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

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

At 31 December 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	-2.78	0.04
Diluted profit (loss) per share	-2.78	0.04

Basic profit (loss) per share

Profit (loss) 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	-2.78	0.04
Total profit (loss) used in the calculation of basic profit per share	-64,049,975.43	839,388.29
Weighted average number of ordinary shares used in the calculation of profit (loss) per share	23,030,083	23,030,083

Basic profit per share is calculated by dividing 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
Balance at the beginning of the year	93,837	93,837
Share issue	0	0
Issue costs	0	0
Balance at the end of the year	93,837	93,837

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

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

In 2013, the Company launched a new issue of class C shares. The *agio* generated by the Company on 6 December 2013 was PLN 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 these financial statements, the Company holds 264,652 treasury shares worth PLN 2,690 thousand. The shares were acquired by the Company from the employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., the company which merged with ZUE S.A., as part of the buy-back effected in 2015. The shares were bought back on the basis of the Resolution no. 4 passed by the Company's Extraordinary General Meeting on 8 December 2014 authorising the Management Board of ZUE S.A. to buy back own shares. The transaction was described in detail in note no. 25 of the consolidated financial statements for the year ended 31 December 2015.

5.5. Retained earnings

	Period ended 31-12-2018	Period ended 31-12-2017
Balance at the beginning of the year	113,461	112,718
Net profit distribution	0	1,480
Reserve funds	0	1,480
Capital reserve	0	0
Coverage of loss of prior years	0	0
Profit (loss) for the current year	-64,049	839
Other net comprehensive income	-75	-96
Payment of dividend for the previous year	0	0
Balance at the end of the year	49,337	113,461

	Period ended 31-12-2018	Period ended 31-12-2017
Reserve funds (without share premium account)	55,637	54,798
Capital reserve	39,435	39,435
Capital reserve associated with comprehensive income	-240	-165
Undistributed profit (loss) brought forward	-1,021	-1,021
Profit (loss) brought forward associated with settlement of revaluation	2,271	2,226

capital

Profit (loss) for the current year	-64,049	839
Effects of implementation of IFRS at ZUE	451	451
Revaluation capital	16,853	16,898
Retained earnings	49,337	113,461

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

The Company's reserve funds meet the requirements of Art. 396 of the 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

In 2018, the Company continued to finance its investments with leases and adjusted the term of liabilities thereunder to its backlog. ZUE did not use any credits despite available credit lines. The main task of financial officers was to obtain the new bond lines to secure tender procedures, proper performance of contracts and the term of warranty and guarantee.

6.1. Loans and bank credits and other financing sources

	Balance at 31-12-2018	Balance at 31-12-2017
Long-term	14,781	11,205
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	4,018	3,491
Short-term	12,963	8,773
Bank credits	0	0
Received loans	0	0
Liabilities relating to financing of property, plant and equipment	9,753	6,680
Obligations under finance leases	3,210	2,093
Total	27,744	19,978

Liabilities relating to the financing of property, plant and equipment include leasebacks. In the reporting period, the Company 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	3,394	2,234	3,210	2,093
Later than one year and not later than five years	4,116	3,591	4,018	3,491
Later than five years	0	0	0	0
Less: future finance charges	-282	-241	0	0
Present value of minimum lease payments	7,228	5,584	7,228	5,584

Leases are presented in the financial statements as:

Short-term loans and bank credits and other financing sources

3,210 2,093

Long-term loans and bank credits and other financing sources

4,018 3,491

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
Present value of minimum lease payments	20,516	14,394	20,516	14,394

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

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

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

Summary of credit agreements

Balance at 31 December 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
Total use of credits		0
Total use of bonds		104,508

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

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

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

Comparative information:

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

(iv)

	including:				
	sublimit for bonds	170,000	71,553		
	sublimit for working credit facilities	20,000	0		
PEKAO SA	Multipurpose credit limit agreement	100,000	16,810	1M WIBOR + margin	30-11-2018
(i)					
(iii)	including:				
	sublimit for bonds	100,000	16,810		
	sublimit for working credit facilities	20,000	0		
Total use of credits			0		
Total use of bonds			90,863		

6.2. Management of capital

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

	Balance at 31-12-2018	Balance at 31-12-2017
Long- and short-term loans and bank credits and other financing sources	27,744	19,978
Long- and short-term other financial liabilities	36	36
Total financial liabilities	27,780	20,014
Cash and cash equivalents	79,404	116,144
Net debt	-51,624	-96,130
Equity	146,242	210,366
Net debt to equity ratio	-35.30%	-45.70%

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

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

Company uses own funds to finance day-to-day operations. In addition, credit lines are available to the Company. At the end of the reporting period, the said credit lines were mainly used for bonds.

Changes in liabilities resulting from financing activities

Non-cash flows

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	11,205	0	0	0	3,576	14,781
Long-term other financial liabilities	0	0	0	0	0	0
Short-term loans and bank credits and other financing sources	8,773	7,766	0	0	-3,576	12,963
Short-term other financial liabilities	36	0	0	0		36
Total financing liabilities	20,014	7,766	0	0	0	27,780

6.3. Financial risk management

The main financial instruments used by the Company include:

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

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

Foreign exchange risk

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

Foreign exchange risk – sensitivity to changes

To analyse the sensitivity to exchange rate changes, the reasonably possible change in foreign exchange rates was assessed, on the basis of historical changes and the Company's experience and knowledge of financial markets, at -5% / +5% for EUR/PLN exchange rate as at 31 December 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	433	22	-22
	USD	147	7	-7
	HRK	1	0	0
Trade and other payables	EUR	1,879	-94	94
Trade and other receivables	EUR	0	0	0
Gross effect on profit or loss of the period and net assets			-65	65
Deferred tax			12	-12
Total			-53	53

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

Interest rate risk

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

Interest rate risk – sensitivity to changes

To analyse the sensitivity to interest rate changes, the reasonably possible change in interest rates was assessed, on the basis of historical changes and the Company's experience and knowledge of financial markets, at -1 / +1 pp at 31 December 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)	9,463	-413	440
– recognised in liabilities (present value)	10,721	-432	464
Cash at banks	79,404	794	-794
Advanced loans	2,804	28	-28
Bank credits and loans	0	0	0
Liabilities relating to financing of property, plant and equipment	20,516	-205	205
Finance lease liabilities	7,228	-72	72
Gross effect on profit or loss of the period and net assets		-300	359
Deferred tax		57	-68
Total		-243	291

Price risk

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

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

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

Credit risk

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

The Company's financial assets exposed to increased credit risk include trade receivables (excluding trade receivables from contracting authorities (investors) in connection with the projects executed pursuant to the Public Procurement Act). A contract-related credit risk is assessed and verified by the Company 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 Company tries to make sure that contracts with investors provide for the right to stop the works if the payment for the services already performed is delayed. If possible, contracts provide for the Company's ability to pay its subcontractors after the Company has been paid by an investor.

Liquidity risk

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

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

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

6.4. Cash and cash equivalents

	Balance at 31-12-2018	Balance at 31-12-2017
Cash on hand and at banks	79,404	105,144
Bank deposits up to three months	0	11,000
TOTAL	79,404	116,144

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 Company and consortium members. ZUE does not have a full control of the funds and cannot use them freely without the consortium's consent. Accordingly, the Company believes that the cash cannot be defined as assets and is not presented in the balance sheet at 31 December 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 Company's cash flows from operating activities of PLN (-) 21,487 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 (-) 17,668 thousand were mainly influenced by the purchase of non-current assets (specialist machinery) financed with own resources and a loan advanced to a subsidiary.

Cash flows from financing activities of PLN 2,384 thousand were influenced by the leaseback for specialist equipment and a decrease in liabilities under leases.

	Period ended 31-12-2018	Period ended 31-12-2017
Cash flows from operating activities	-21,487	16,069
Cash flows from investing activities	-17,668	34,495
Cash flows from financing activities	2,384	4,765
Total net cash flows	-36,771	55,329
Cash and cash equivalents at the beginning of the period	116,144	61,207
Cash and cash equivalents at the end of the period	79,404	116,144

ZUE's cash decreased by PLN 36,740 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

Gross value	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2018	0	24,576	45,960	67,095	2,069	139,700	3,202	3,705	146,607
Additions	0	47	7,331	19,474	114	26,966	10,747	945	38,658
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	2,023	1,180	36	3,239	0	0	3,239
Balance at 31 December 2018	0	24,634	51,268	85,378	2,147	163,427	302	0	163,729

Depreciation	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2018	0	7,710	20,567	24,643	1,683	54,603	0	0	54,603
Elimination on disposal of assets	0	0	1,524	938	35	2,497	0	0	2,497
Depreciation expense	0	788	3,164	5,740	116	9,808	0	0	9,808
Balance at 31 December 2018	0	8,498	22,207	29,445	1,764	61,914	0	0	61,914

Carrying amount									
Balance at 1 January 2018	0	16,866	25,393	42,452	386	85,097	3,202	3,705	92,004
Balance at 31 December 2018	0	16,136	29,061	55,933	383	101,513	302	0	101,815

The Company 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 Company was PLN 13,122 thousand.

Assets pledged as security

Note 7.22 deals with property, plant and equipment pledged as security for bank agreements. The Company's liabilities under finance lease and liabilities arising from the financing of property, plant and equipment (note 6.1) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

Comparative information:

Gross value	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2017	0	24,542	46,704	50,854	1,949	124,049	518	2,967	127,534
Additions	0	34	219	16,945	148	17,346	4,010	3,705	25,061
Transfer to non-current assets	0	0	0	0	0	0	1,326	2,967	4,293
Sale/liquidation	0	0	963	704	28	1,695	0	0	1,695
Balance at 31 December 2017	0	24,576	45,960	67,095	2,069	139,700	3,202	3,705	146,607

Depreciation	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2017	0	6,920	18,207	20,509	1,563	47,199	0	0	47,199
Elimination on disposal of assets	0	0	713	614	24	1,351	0	0	1,351
Depreciation expense	0	790	3,073	4,748	144	8,755	0	0	8,755
Balance at 31 December 2017	0	7,710	20,567	24,643	1,683	54,603	0	0	54,603

Carrying amount									
Balance at 1 January 2017	0	17,622	28,497	30,345	386	76,850	518	2,967	80,335
Balance at 31 December 2017	0	16,866	25,393	42,452	386	85,097	3,202	3,705	92,004

7.2. Investment property

Gross value	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2018	126	5,228	7,397	0	0	0	12,751
Additions	0	0	12	0	0	0	12
Impairment	0	0	0	0	0	0	0
Sale/liquidation	0	0	0	0	0	0	0
Balance at 31 December 2018	126	5,228	7,409	0	0	0	12,763

Depreciation	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2018	0	1,505	2,151	0	0	0	3,656
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	172	293	0	0	0	465
Balance at 31 December 2018	0	1,677	2,444	0	0	0	4,121

Carrying amount							
Balance at 1 January 2018	126	3,723	5,246	0	0	0	9,095
Balance at 31 December 2018	126	3,551	4,965	0	0	0	8,642

The investment property as at 31 December 2018:

- real estate in Kościelisko (plots no. 2001 and 2491); and
- real estate in Poznań (plot no. 2/1).

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

No impairment losses were released by the Company in 2018. The total amount of investment property impairment losses is PLN 1,770 thousand.

The investment property was measured at purchase price less impairment losses. Revenue from the lease of investment property in 2018 was PLN 375 thousand (PLN 379 thousand in 2017). Operating expenses relating to the investment property amounted to PLN 821 thousand in 2018 (PLN 790 thousand in 2017).

Comparative information:

Gross value	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	126	5,228	5,186	0	0	0	10,540
Additions	0	0	11	0	0	0	11
Impairment	0	0	-2,200	0	0	0	-2,200
Sale/liquidation	0	0	0	0	0	0	0
Balance at 31 December 2017	126	5,228	7,397	0	0	0	12,751
Depreciation	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	0	1,333	1,858	0	0	0	3,191
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	172	293	0	0	0	465
Balance at 31 December 2017	0	1,505	2,151	0	0	0	3,656
Carrying amount	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2017	126	3,895	3,328	0	0	0	7,349
Balance at 31 December 2017	126	3,723	5,246	0	0	0	9,095

7.3. Non-current assets held for sale

No non-current assets held for sale were held by the Company 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
Acquired concessions, patents, licenses and similar assets, including:	190	557
- Software	190	557
Other intangible assets, including:	7,925	8,037
- Leasehold	7,925	8,037
Total	8,115	8,594

Movements in intangible assets:

	Leasehold	Other intangible assets – software	Total
Gross value			
Balance at 1 January 2018	9,038	3,912	12,950
Additions	0	8	8
Sale/liquidation	0	0	0
Balance at 31 December 2018	9,038	3,920	12,958
Amortisation and impairment			
Balance at 1 January 2018	1,001	3,355	4,356
Amortisation expense	112	375	487
Sale/liquidation	0	0	0
Balance at 31 December 2018	1,113	3,730	4,843
Carrying amount			
Balance at 1 January 2018	8,037	557	8,594
Balance at 31 December 2018	7,925	190	8,115

Comparative information:

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

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

7.5. Goodwill

	Balance at 31-12-2018	Balance at 31-12-2017
At cost		
Goodwill of PRK	31,172	31,172
Balance at the end of the reporting period	31,172	31,172

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

The goodwill of PLN 31,172 thousand and the leasehold value (difference in the fair value of the net assets at acquisition) of PLN 15,956 thousand (adjusted for a deferred tax asset) disclosed in the separate financial statements at the merger date were calculated as at the date the control of PRK was gained by ZUE in 2010 and follow from the consolidated financial statements. Changes in interests resulting from the merger were accounted for as changes in equity.

ZUE and PRK merged under joint control.

The entire goodwill is assigned to the construction segment.

Annual goodwill impairment test

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

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

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

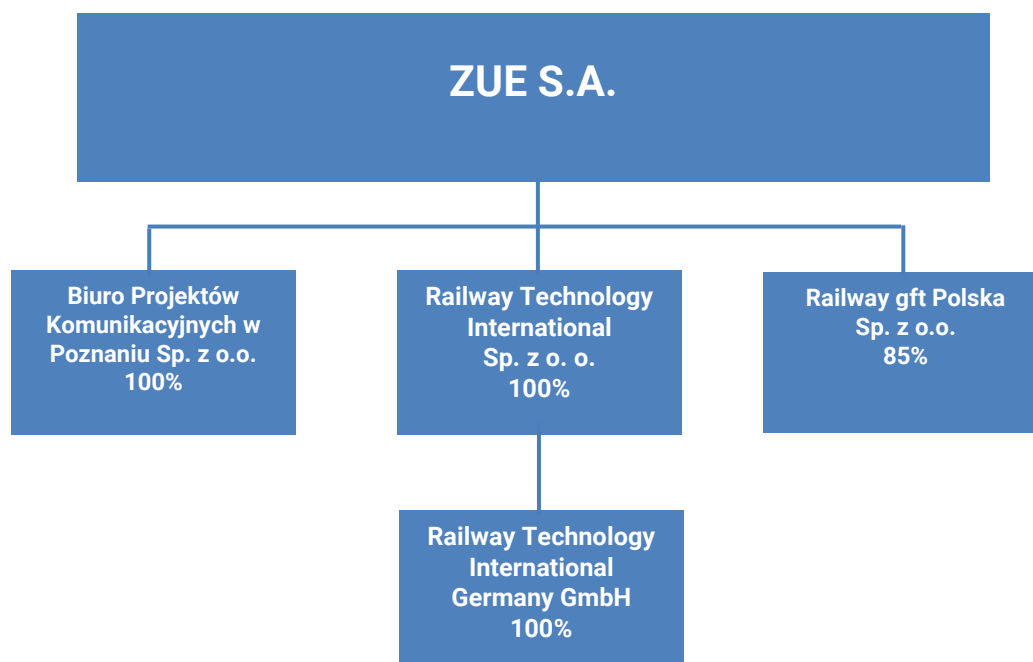
If the useful value of an asset generating cash is estimated, the management personnel is convinced that no reasonably possible change to any key assumption will cause the carrying amount of the said asset to substantially exceed its recoverable value.

7.6. Investments in subordinates

Information about the Company's subsidiaries

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

Structure of the Capital Group at 31 December 2018 and at the date of the report approval:



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

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

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

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

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

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 Parent Company using consistent accounting policies. The Parent Company and the subsidiaries use a calendar year as their financial year.

Company name	Core business	Registered office and principal place of business	Interests		Value at historical cost	
			Balance at 31-12-2018	Balance at 31-12-2017	Balance at 31-12-2018	Balance at 31-12-2017
Railway GFT Polska Sp. z o.o.	Sales activities	Cracow	85%	70%	221	210
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Preparation of comprehensive design documentation	Poznań	100%	100%	8,762	8,762

Railway Technology International Sp. z o.o.	Holding activities	Cracow	100%	51%	176	118
Total investments in subordinates					9,159	9,090
Allowances for shares of BPK Poznań (cumulative)					8,762	8,762
Allowances for shares of RTI (cumulative)					176	118
Total investments in subordinates net of allowances					221	210

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

The consolidated financial statements were prepared by the Company for the financial year ended 31 December 2018. The financial statements were approved of on 27 March 2019. ZUE is the Parent Company of the Group.

7.7. Other financial assets

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

7.8. Other assets

	Current assets	
	Balance at 31-12-2018	Balance at 31-12-2017
Prepayments	752	772
Other receivables	12	137
Total	764	909

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

7.9. Advanced loans

	Balance at 31-12-2018	Balance at 31-12-2017
Loans advanced to related parties	2,863	66
Loans advanced to other parties	288	279
Impairment losses	-347	-335
Total	2,804	10

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

7.10. Inventories

	Balance at 31-12-2018	Balance at 31-12-2017
Goods, materials and raw materials	36,578	23,706
Work in progress	534	334
Finished goods	199	199
Total	37,311	24,239

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.

7.11. Other financial liabilities

	Current	
	Balance at 31-12-2018	Balance at 31-12-2017
Liabilities under dividends	36	36
Total	36	36

7.12. Other liabilities

	Non-current	
	Balance at 31-12-2018	Balance at 31-12-2017
Other liabilities	70	350
Total	70	350

Other non-current liabilities of PLN 70 thousand (PLN 350 thousand in 2017) arise from the purchase of real estate from a subsidiary.

7.13. Obligations under retirement and other benefits

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

Pension and retirement gratuities are paid to 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:

	Balance at 31-12-2018	Balance at 31-12-2017
Pension and retirement gratuities, including:	1,082	953
– present amount of obligation at the end of the reporting period	1,082	953
– actuarial gains / (losses) unrecognised at the end of the reporting period	0	0
– past service cost unrecognised at the end of the reporting period	0	0
Obligations to employees	0	0
Employee benefits	22,057	16,087
– provision for unused leaves	4,519	4,063
– provision for bonuses	9,107	5,959
– salaries and wages	4,289	3,126
– social security and other benefits	4,142	2,939
Total obligations under retirement and other benefits	23,139	17,040
including:		
– long-term	1,036	856
– short-term	22,103	16,184

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

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

Pension and retirement gratuities

	Period ended 31-12-2018	Period ended 31-12-2017
Present amount of obligation at the beginning of the period	953	813
Interest expense	29	27
Current service cost	98	83
Past service cost	0	0
Benefits paid	-90	-89
Actuarial (gains) / losses	92	119
Present amount of obligation at the end of the period	1,082	953

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

	Period ended 31-12-2018	Period ended 31-12-2017
Current service cost	98	83
Interest expense	29	27
Actuarial (gains) / losses to be recognised in the period	92	119
Past service cost	0	0
Costs recognised in statement of comprehensive income	219	229
Amount recognised in profit or loss	127	110
Amount recognised in other comprehensive income (without deferred tax)	92	119

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

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	1,018	64	1,082
rotation rate -1.0%	1,046	67	1,113
rotation rate +1.0%	993	62	1,055
probability of drawing pensions -0.5	1,023	54	1,077
probability of drawing pensions +0.5	1,014	75	1,089

technical discount rate -1.00%	1,110	68	1,178
technical discount rate +1.00%	939	61	1,000
rise in bases	0	0	0
remuneration at the Company -1.0%	938	61	999
remuneration at the Company +1.0%	1,109	68	1,177

7.14. Financial instruments

The following table sets out the carrying amounts of all financial instruments of the Company with a breakdown into particular classes and categories of assets and liabilities.

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)	13,418	0	0	0	20,215
Trade receivables	183,411	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	2,804	0	0	0	0
Cash and cash equivalents	79,404	0	0	0	0
Loans and bank credits and other financing	0	0	0	0	27,744
Trade payables	0	0	0	0	174,985
Total	279,037	0	0	0	222,980

In the reporting period, the Company 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	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
Retentions on construction contracts (before discount)	0	0	14,167	0	13,360
Trade receivables	0	0	103,145	0	0
Receivables from the state budget other than corporate income tax	0	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	0	0	10	0	0
Cash and cash equivalents	0	116,144	0	0	0
Loans and bank credits and other financing sources	0	0	0	0	19,978
Trade payables	0	0	0	0	86,200

Payables to the state budget other than corporate income tax	0	0	0	0	15,538
Total	0	116,144	117,322	0	135,112

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

	Balance at 31-12-2018
Age structure	
– less than 1 year	196,024
– 1 - 3 years	20,114
– 3 - 5 years	2,084
– 5 years +	4,758
Total	222,980

	Balance at 31-12-2017
Age structure	
– less than 1 year	117,114
– 1 - 3 years	14,178
– 3 - 5 years	2,237
– 5 years +	1,583
Total	135,112

Derivative instruments

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

7.15. Transactions with related parties

Sales transactions

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

	Receivables		Payables	
	Balance at		Balance at	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Railway gft	60	178	3,745	4,919
BPK Poznań	1,315	1,351	3,038	1,329
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	1,375	1,529	6,783	6,248

	Revenue		Purchases	
	Period ended		Period ended	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Railway gft	365	439	11,744	32,776
BPK Poznań	572	555	8,456	2,470
RTI	3	3	0	0
RTI Germany	0	0	0	0

Wiesław Nowak	0	0	0	468
Total	940	997	20,200	35,714

	Advanced loans		Financial income (interest)	
	Balance at		Period ended	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Railway gft	2,783	0	97	0
BPK Poznań	0	0	0	0
RTI	21	10	1	0
RTI Germany	59	56	1	1
Wiesław Nowak	0	0	0	0
Total	2,863	66	99	1

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

The following services were sold by ZUE to related parties in the reporting period:

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

The following goods and services were bought by ZUE from related parties in the reporting period:

- Purchase of materials used in connection with the construction and repair of tracks;
- Design services; and
- Printing services.

The following transactions were entered into by ZUE in the reporting period:

- Lease of business establishment to RTI on the basis of the lease of 31 December 2015;
- Lease of rooms to BPK Poznań on the basis of the lease of 1 October 2015 and the lease of 7 April 2010 amended on the basis of the annexes thereto;
- Lease of business establishments to Railway gft on the basis of the lease of 10 August 2017 (effective from 1 October 2017).

On 24 January 2018, ZUE and Railway gft signed a loan agreement whereby Railway gft was granted a special-purpose loan of PLN 3,200 thousand to be repaid by 31 March 2019. The loan was disbursed on 25 January 2018. Under the agreement, the loan could be repaid in instalments. The subsidiary took advantage of this provision and partially repaid the principal plus interest in the reporting period.

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 no. 3 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.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total amount of the said guarantees at 31 December 2018 was PLN 20,951 thousand. ZUE is remunerated for the service.

On 26 February 2019, ZUE and BPK Poznań signed a loan agreement whereby BPK Poznań was granted a special-purpose loan of PLN 300 thousand to be repaid within 36 months of the loan disbursement date. The amount was not disbursed by the date of publication of this report.

7.16. 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 Company's operating activities. Court cases are described in detail in the consolidated financial statements.

7.17. 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 Company as a result of such inspections.

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

7.18. 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
Management Board				
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
Proxies				
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
Supervisory Board				
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
Total		4,505		3,811

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.

7.19. Dividend

On 24 April 2018, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit of the Company for the financial year 2017 of PLN 839 thousand to reserve funds. The Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations.

On 5 June 2018, the Company's Ordinary General Meeting resolved to allocate the entire net profit earned by the Company in the financial year 2017 to reserve funds.

7.20. Operating lease arrangements

Company as lessee

Operating lease relates to the following leasehold property:

- Undeveloped property in Cracow, district 25, comprising the plots no. 121/1, 121/3, 121/4, 122/1, 122/2, 137/2, 162/1, 162/5 – Land and mortgage registers no. KR1P/00204399/8 and KR1P/00199773/5;
- Developed property in Cracow, district 4, comprising the plot no. 527/26 – Land and mortgage register no. 185225;
- Undeveloped property in Kościelisko comprising the plots no. 2001 and 2491 – Land and mortgage registers no. 10662 and 10740; and
- Developed property in Poznań comprising the plot no. 2/1 - Land and mortgage register no. PO1P/00114066/6.

Lease arrangements

The annual lease payment for the leasehold land in Cracow, district 25, marked as the plots no. 121/1, 121/3, 121/4, 122/1, 122/2, 137/2, 162/1 and 162/5 is PLN 163 thousand. The property is leasehold until 2089.

The annual lease payment for the leasehold land in Cracow, district 4, marked as the plot no. 527/26 is PLN 95 thousand. The property is leasehold until 2089.

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

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

Payments recognised as an expense

	Year ended 31-12-2018	Year ended 31-12-2017
Minimum lease payments	366	366
Total	366	366

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
Total	25,980	26,346

7.21. Investment liabilities

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

7.22. Contingent assets and contingent liabilities

Contingent assets

	(PLN '000)	
	Balance at 31-12-2018	Balance at 31-12-2017
Bonds	70,125	36,309
Bills of exchange	7,470	6,756
Total	77,595	43,065

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

Contingent liabilities

	(PLN '000)	
	Balance at 31-12-2018	Balance at 31-12-2017
Bonds	587,879	477,103
Guarantees	24,951	18,421
Bills of exchange	342,424	317,684
Mortgages	54,259	54,259
Pledges	19,927	13,048
Total	1,029,440	880,515

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

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

7.23. 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 financial statements of the Company 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 Company's financial statements.

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

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

- **IFRS 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 Company did not elect the early application of the foregoing new standards or amendments to the existing standards.

The Company believes that except for IFRS 16, the foregoing amendments to the standards or interpretations will not have any considerable influence on the Company's 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 Company 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 Company 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 Company. Accordingly, the allocation of the transaction price to the performance obligation does not require any estimating.

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

Input method

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

Zero-profit method

If the Company 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 Company 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 Company 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, a company 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 Company 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 Company'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 Company since 1 January 2018.

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

The Company 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 Company'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 Company 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 Company at an amount equal to expected credit losses over the entire lifetime.

Trade receivables are the most important item of financial assets in the Company's financial statements, which is

governed by the rules of calculating the expected credit losses.

The Company 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 Company at an amount of expected credit losses for the entire expected lifetime of the financial asset.

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

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 Company's financial statements

Implementing IFRS 16 with a modified retrospective approach.

The Company 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 Company is 1 January 2019. The Company has applied a modified approach so there is no requirement to restate comparative financial information. Instead, the Company 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 Company 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 Company is a lessee or lessor under the contract.

Practical solutions used by the Company

When applying IFRS 16 for the first time, the Company 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	1,049
Lease of low value assets	76
Total exemptions	1,125

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 Company'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 Company is a lessee of cars, apartments, land and leasehold land.

Lease of cars	674
Lease of apartments, land and office equipment	1,744
Leasehold land	4,127
Total	6,545

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 Company 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	674
Lease of apartments, land and office equipment	1,744
Leasehold land	4,127
Leasehold land in investment property	1,359
Total	7,904

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	27,744
Right-of-use assets	51,444

PLN 27,744 thousand includes vehicles, machines and technical equipment leased under IAS 17.

Right-of-use assets – reclassified from intangible assets

Leasehold land

7,925

Impact of the implementation of IFRS16 on the financial statements

At the date of application of IFRS 16, the Company will recognise the right-of-use assets of PLN 7,904 thousand and the lease liabilities of PLN 7,904 thousand.

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

	According to IFRS 16	Approved	
	Balance at 2019-01-01	Balance at 2018-12-31	Effect of changes
ASSETS			
Non-current assets			
Property, plant and equipment	50,371	101,815	-51,444
Investment property	10,001	8,642	1,359
Intangible assets	190	8,115	-7,925
Right-of-use assets	65,914	0	65,914
Total non-current assets	189,817	181,913	7,904
Total current assets	414,705	414,705	0
Total assets	604,522	596,618	7,904

	According to IFRS 16	Approved	
	Balance at 2019-01-01	Balance at 2018-12-31	Impact of changes
LIABILITIES			
Total equity	146,242	146,242	0
Non-current liabilities			
Long-term loans and bank credits	0	14,781	-14,781
Long-term lease liabilities	21,225	0	21,225
Total non-current liabilities	40,924	34,480	6,444
Short-term loans and bank credits	0	12,963	-12,963
Short-term lease liabilities	14,423	0	14,423
Total current liabilities	417,356	415,896	1,460
Total liabilities	458,280	450,376	7,904
Total equity and liabilities	604,522	596,618	7,904

8.2. Important accounting principles

8.2.1. Going concern

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

The key factors influencing the Company'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 Company recognised sales revenue of PLN 763,757 thousand, gross profit of PLN (-) 62,035 thousand, operating loss of PLN (-) 79,973 thousand, pre-tax loss of PLN (-) 78,714 thousand and net loss of PLN (-) 64,049 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 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 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 Company's Management Board analysed the projected cash flows and decided that the amount thereof was sufficient to enable the Company to continue its operations within the same scope.

The Company's profit or loss was recognised based on the budgets of the contracts held by the 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 Company'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 Company's current assets amounted to PLN 414,705 thousand, including cash of PLN 79,404 thousand. In 2018, the Company financed its operating activities with own resources. At the date of preparation of this report, the Company held available credit lines for the total amount of PLN 70,000 thousand.

At the date of preparation of this report, the Company's backlog contains the contracts worth approx. PLN 1.9bn. The Company also awaits the outcome of tender procedures of about PLN 619m. ZUE 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 Company 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 Company 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 Company'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 financial statements clearer, reinvoices and damages have been presented by the Company jointly (other operating income and expenses and financial income and expenses according to their netted balance).

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

	Restated	Approved	
	12 months ended	12 months ended	Effect of change
	31-12-2017	31-12-2017	
Continuing operations			
Sales revenue	359,041	408,487	-49,446
Cost of sales	343,350	392,796	-49,446
Gross profit (loss) on sales	15,691	15,691	0
General and administrative expenses	16,001	16,001	0
Other operating income	3,392	5,201	-1,809
Other operating expenses	1,561	3,370	-1,809
Operating profit (loss)	1,521	1,521	0
Financial income	2,173	2,253	-80
Financial expenses	2,190	2,270	-80
Pre-tax profit (loss)	1,504	1,504	0
Corporate income tax	665	665	0
Net profit (loss) from continuing operations	839	839	0
Net profit (loss)	839	839	0

In these financial statements and the comparative information, the Company 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 Company 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 separate statement of financial position:

	Restated	Approved	
	Balance at	Balance at	Effect of change
	31-12-2017	31-12-2017	
ASSETS			
Non-current assets			
Total non-current assets	158,317	158,317	0
Current assets			
Trade and other receivables	105,746	171,270	-65,524
Measurement of long-term construction contracts	65,524	0	65,524
Total current assets	316,965	316,965	0
Total assets	475,282	475,282	0

EQUITY AND LIABILITIES

Equity			
Total equity	210,366	210,366	0
Non-current liabilities			
Total non-current liabilities	23,837	23,837	0
Current liabilities			
Trade and other payables	205,950	206,425	-475
Measurement of long-term construction contracts	475	0	475
Total current liabilities	241,079	241,079	0
Total liabilities	264,916	264,916	0
Total equity and liabilities	475,282	475,282	0

8.2.3. Preparation basis

The separate 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 financial statements are consistent with the accounting principles (policies) used in the preparation of the Company's financial statements 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 Company are presented below.

8.2.4. Segment reporting

ZUE's reporting is based on operating segments. The Company analyses the areas of activity based on the aggregation rules under IFRS MSSF 8.12 and identifies one aggregate reporting segment, namely construction activity.

The Company is organised and managed within the abovementioned segment. The Group applies a uniform accounting policy for all operating areas within the segments. Accordingly, the Management Board monitor operating and financial results at the Company.

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

IFRS 15 has been applied by the Company 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.
2. Identification of performance obligations.
3. Determination of transaction price.
4. Allocation of the price.
5. Recognition of revenue.

Since 1 January 2018, the Company 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 Company. 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 Company relative to total expected expenditures (costs)

to determine the extent of progress toward completion.

Zero-profit method

If the Company 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 Company 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 Company 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 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.

8.2.6. Foreign currencies

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

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

8.2.7. Borrowing costs

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

All other borrowing costs are recognised, subject to item 8.2.5, in profit or loss in the period in which they are incurred. Borrowing costs relating to construction contracts are debited directly to the cost of the Company's operating activities.

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

8.2.8. Employee benefits

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

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

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

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

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

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

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

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

8.2.9. 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 adjusts for taxable expenses that are not balance sheet expenses and taxable income that is not balance sheet income. The Company's liability for current tax is calculated using tax rates applicable in the year.

Deferred tax

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

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

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

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

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

Current and deferred tax for the year

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

8.2.10. 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 8.2.13. 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.

8.2.11. Investment property

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

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

Investment properties, which meet the criteria of being classified as held for sale or disclosed in a pool held for sale, are measured according to the rules set forth in note 8.2.14.

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.

8.2.12. Intangible assets

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

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

The expenses associated with the purchase of leasehold are also recognised by the Company as intangible assets. The expenses associated with the purchase of such rights on the secondary market (from other entities) and the expenses associated with conferring such rights by relevant state authorities are recognised as intangible

assets and amortised over the period in which such rights may be exercised by the Company. The leasehold payments are recognised as operating expenses.

Intangible assets are amortised according to the rates which reflect the estimated period of their useful lives. Estimates of useful life are reviewed every year. The Company does not own any intangible assets whose useful lives are indefinite. Intangible assets with definite useful lives are amortised on a straight-line basis. The following useful lives are used for particular intangible assets:

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

Intangible assets are tested for impairment if there are indications of impairment and any impairment is determined at the end of each reporting period. Rules governing the determining of impairment are set out in note 8.2.13. 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.

8.2.13. Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

8.2.14. 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.

8.2.15. Investments in subordinates

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

8.2.16. Leasing

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

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

The lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant interest rate on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's accounting policy on borrowing costs as set out in note 8.2.7.

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

8.2.17. Inventories

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

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

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

Materials, merchandise, raw materials and finished goods are written down at the discretion of the Company.

Inventory disbursement is recorded in accordance with the principles of specific identification and is recognised in 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.

8.2.18. 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 Company 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 Company 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 Company at an amount equal to expected credit losses over the entire lifetime.

8.2.19. 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.

8.2.20. Trade and other payables

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

Trade and other payables are divided by the Company 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.

8.2.21. 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 Company 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 Company 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 Company at an amount equal to expected credit losses over the entire lifetime.

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

The Company 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 Company at an amount of expected credit losses for the entire expected lifetime of the financial asset.

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

Hedge accounting

No hedge accounting is applied by the Company.

8.2.22. Financial liabilities and equity instruments issued by the Company

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

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

A financial liability other than held for trading may be designated as 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 Company in financial liabilities measured at amortised cost:

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

8.2.23. Provisions

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

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

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

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 Company 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. 8.2.10. and 8.2.12.)
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. 7.22.)
8. Uncertainty over tax settlements (note no. 7.17.)

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 8.2.10 and 8.2.12, the Company 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 Company verifies the useful economic lives every year based on current estimates.

8.3.3. Loss allowances for receivables

The Company 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, a loss allowance is measured by the Company at an amount equal to expected credit losses over the entire lifetime.

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

The Company 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

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

Provisions for employee benefits

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

Provisions for warranty claims

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

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

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

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

Provisions for losses on contracts

Provisions for losses 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 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 Company under the percentage-of-completion method. Contract budgets are prepared for each construction contract. Budgets are updated twice a year on the basis of month-end closes for April and October. The stage of completion of a contract is determined on the basis of contract budgets by calculating the proportion that contract costs incurred for the work performed to date bear to the estimated total costs of the contract. When contracts are signed but their budgets not approved, the contracts are measured using the zero-profit method.

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

8.3.6. Deferred tax assets

The Company's Management Board decide about the recognition of deferred tax assets based on 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 Company in the statement of financial position. The Company 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 financial statements

The 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

Signatures of the management personnel:

Wiesław Nowak

Anna Mroczek Management Board Vice-President

Jerzy Czeremuga Management Board Vice-President

Maciej Nowak Management Board Vice-President

Marcin Wiśniewski Management Board Vice-President

Cracow, 27 March 2019