



FINANCIAL STATEMENTS OF ZUE S.A.
FOR THE YEAR ENDED 31 DECEMBER 2019

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

Cracow, 16 March 2020

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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 260,000 paid up in full. Subsidiary of ZUE.
RTI Germany	Railway Technology International Germany GmbH in liquidation 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 2019, item 505, as amended).

Share capital details as at 31 December 2019.

Selected financial information of ZUE S.A.

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

	Balance at 31-12-2019		Balance at 31-12-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	181,634	42,652	181,913	42,305
Current assets	341,697	80,239	414,705	96,443
Total assets	523,331	122,891	596,618	138,748
Equity	149,291	35,057	146,242	34,010
Non-current liabilities	51,499	12,093	34,480	8,019
Current liabilities	322,541	75,741	415,896	96,719
Total equity and liabilities	523,331	122,891	596,618	138,748

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

	Period ended 31-12-2019		Period ended 31-12-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Sales revenue	934,899	217,327	763,757	178,996
Cost of sales	911,825	211,964	825,792	193,534
Gross profit (loss) on sales	23,074	5,363	-62,035	-14,538
Operating profit (loss)	6,301	1,465	-79,973	-18,743
Gross profit (loss)	5,920	1,376	-78,714	-18,448
Net profit (loss) from continuing operations	3,135	729	-64,049	-15,011
Total comprehensive income	3,049	709	-64,124	-15,028

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

	Period ended 31-12-2019		Period ended 31-12-2018	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-52,549	-12,216	-21,487	-5,036
Cash flows from investing activities	-2,508	-583	-17,668	-4,141
Cash flows from financing activities	3,634	845	2,384	559
Total net cash flows	-51,423	-11,954	-36,771	-8,618
Cash at the beginning of the period	79,404	18,466	116,144	27,846
Cash at the end of the period	27,979	6,570	79,404	18,466

Rules adopted to translate selected financial information into EUR:

Item	Exchange rate	Exchange rate on 31-12-2019	Exchange rate on 31-12-2018	Exchange rate on 31-12-2017
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.2585	4.3000	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	4.3018	4.2669	n/a
"Cash at the beginning of the period" and "Cash at the end of the period" items in the statement of cash flows	Mid exchange rate prevailing at the end of the reporting period	4.2585	4.3000	4.1709

Statement of comprehensive income

	Note no.	12 months ended	12 months ended
		31-12-2019	31-12-2018
Continuing operations			
Sales revenue	2.1.	934,899	763,757
Cost of sales	2.2.	911,825	825,792
Gross profit (loss) on sales		23,074	-62,035
General and administrative expenses	2.2.	17,083	18,076
Other operating income	2.3.	1,089	889
Other operating expenses	2.4.	779	751
Operating profit (loss)		6,301	-79,973
Financial income	2.5.	1,465	2,212
Financial expenses	2.6.	1,846	953
Pre-tax profit (loss)		5,920	-78,714
Corporate income tax	2.7.	2,785	-14,665
Net profit (loss) from continuing operations		3,135	-64,049
Net profit (loss)		3,135	-64,049
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		-86	-75
Actuarial gains (losses) relating to specific benefit schemes	2.8.	-86	-75
Other total net comprehensive income		-86	-75
Total comprehensive income		3,049	-64,124
Number of shares		23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)		0.14	-2.78
Total comprehensive income (loss) per share (PLN)		0.13	-2.78

Statement of financial position

	Note no.	Balance at 31-12-2019	Restated Balance at 31-12-2018
ASSETS			
Non-current assets			
Property, plant and equipment	7.1.	53,695	101,815
Investment property	7.2.	9,487	8,642
Intangible assets	7.4.	1,484	8,115
Right-of-use assets	7.5.	56,059	0
Goodwill	7.6.	31,172	31,172
Investments in subordinates	7.7.	221	221
Retentions on construction contracts	3.2.	9,455	9,463
Deferred tax assets	2.7.	19,954	22,485
Advanced loans	7.10.	107	0
Total non-current assets		181,634	181,913
Current assets			
Inventories	7.11.	25,114	37,311
Trade and other receivables	4.1.	175,133	171,503
Measurement of long-term construction contracts	3.1.	99,287	103,400
Retentions on construction contracts	3.2.	2,984	2,938
Advance payments	3.4.	10,291	16,581
Current tax assets	2.7.	0	0
Advanced loans	7.10.	95	2,804
Other assets	7.9.	814	764
Cash and cash equivalents	6.5.	27,979	79,404
Total current assets		341,697	414,705
Total assets		523,331	596,618

	Note no.	Balance at 31-12-2019	Restated Balance at 31-12-2018
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.	52,386	49,337
Total equity		149,291	146,242
Non-current liabilities			
Long-term loans and bank credits	6.1.	13,333	0
Non-current lease liabilities	6.2.	12,385	14,781
Retentions on construction contracts	3.2.	12,505	10,721
Liabilities under employee benefits	7.14.	1,200	1,036
Long-term provisions	3.3.	12,076	7,872
Other liabilities	7.13.	0	70
Total non-current liabilities		51,499	34,480
Current liabilities			
Trade and other payables	4.2.	156,784	205,856
Accruals	3.5.	54,041	55,020
Measurement of long-term construction contracts	3.1.	4,247	6,980
Retentions on construction contracts	3.2.	19,167	8,099
Advance payments	3.4.	27,788	75,007
Short-term loans and bank credits	6.1.	6,667	0
Current lease liabilities	6.2.	9,931	12,963
Other financial liabilities	7.12.	36	36
Liabilities under employee benefits	7.14.	27,671	22,103
Current tax liabilities	2.7.	0	0
Short-term provisions	3.3.	16,209	29,832
Total current liabilities		322,541	415,896
Total liabilities		374,040	450,376
Total equity and liabilities		523,331	596,618

Statement of changes in equity

		Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at	1 January 2019	5,758	93,837	-2,690	49,337	146,242
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	3,135	3,135
Other net comprehensive income		0	0	0	-86	-86
Balance at	31 December 2019	5,758	93,837	-2,690	52,386	149,291
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

Statement of cash flows

	Restated	
	12 months ended	12 months ended
	31-12-2019	31-12-2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	5,920	-78,714
Adjustments for:		
Depreciation and amortisation	13,011	10,760
Foreign exchange gains / (losses)	2	-42
Interest and share in profit (dividends)	1,385	550
(Gain) / loss on disposal of investments	-90	1
Operating profit (loss) before changes in working capital	20,228	-67,445
Change in receivables and retentions on construction contracts	-3,667	-76,041
Change in inventories	12,197	-13,072
Change in provisions and liabilities under employee benefits	-3,793	35,041
Change in payables and retentions on construction contracts	-36,702	110,315
Change in measurement of construction contracts	1,380	-31,371
Change in accruals	-979	26,076
Change in prepayments	-40,929	-5,137
Change in other assets	-50	147
Income tax paid / tax refund	-234	0
NET CASH FROM OPERATING ACTIVITIES	-52,549	-21,487
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	195	891
Purchase of property, plant and equipment and intangible assets	-5,365	-16,027
Sale / (purchase) of financial assets in other entities	0	-58
Sale / (purchase) of financial assets in related parties	-35	-11
Advanced loans	-317	-3,210
Repayment of advanced loans	2,818	500
Interest received	196	247
NET CASH FROM INVESTING ACTIVITIES	-2,508	-17,668
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	59,800	17,319
Repayment of loans and bank credits	-40,000	0
Decrease in lease liabilities	-15,174	-14,122
Lease interest paid	-864	-813
Other interest paid	-128	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	3,634	2,384
TOTAL NET CASH FLOWS	-51,423	-36,771
Net foreign exchange gains / (losses)	-2	31
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	79,404	116,144
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:	27,979	79,404
- of limited availability	8	0

Notes to the financial statements as at 31 December 2019

1. General information

1.1. Information about the Company

The Company has been established on the basis of 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 did not change during the reporting period or until the date of preparation of these consolidated financial statements.

Composition of ZUE's Management and Supervisory Boards at the date of preparation of these 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 2019, item 1421, as amended).

1.2. Activities of ZUE

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.

The Company can build civil structures and deliver reinforced concrete projects, such as viaducts, bridges, passages, resistance walls or noise barriers, based on its skills and resources.

In 2019, the Company continued to provide rail and urban infrastructure construction services.

1.3. Functional and reporting currency

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

2. Notes to the statement of comprehensive income

2.1. Revenue

	Period ended 31-12-2019	Period ended 31-12-2018
Revenue from construction contracts	912,344	746,026
Revenue from the rendering of services	18,773	15,069
Revenue from the sale of goods, raw and other materials	3,782	2,662
Total	934,899	763,757

ZUE's sales revenue in the period 1 January - 31 December 2019 amounted to PLN 934,899 thousand and increased by 22% compared to the revenue reported in the analogous period of 2018.

The Company operated in the territory of Poland in the reporting period.

Long-term construction contracts generated the largest portion of the Company's revenue.

The entire revenue is presented by the Company in one reporting segment, namely construction activity.

Concentration of revenue exceeding 10% of total sales revenue

	Period ended 31-12-2019	Period ended 31-12-2018
Counterparty A	605,943	556,653
Counterparty B	112,882	

2.2. Operating expenses

	Period ended 31-12-2019	Period ended 31-12-2018
Change in products	-78	-200
Depreciation and amortization	13,011	10,760
Consumption of materials and energy, including:	280,712	377,200
- consumption of materials	273,205	369,359
- consumption of energy	7,507	7,841
Contracted services	498,394	354,129
Costs of employee benefits	106,721	86,983
Taxes and charges	1,394	1,645
Other expenses	25,937	11,812
Value of goods and materials sold	2,817	1,539
Total	928,908	843,868

	Period ended 31-12-2019	Period ended 31-12-2018
Cost of sales	911,825	825,792
General and administrative expenses	17,083	18,076
Total	928,908	843,868

ZUE's general and administrative expenses in the period 1 January - 31 December 2019 amounted to PLN 17,083 thousand and decreased by 5.5 % compared to the Company's general and administrative expenses reported in 2018.

Depreciation and amortisation

	Period ended 31-12-2019	Period ended 31-12-2018
Depreciation of property, plant and equipment	8,654	9,809
Depreciation of right-of-use assets	3,742	0
Amortisation of intangible assets	101	486
Depreciation of investments in real property	514	465
Total	13,011	10,760

2.3. Other operating income

	Period ended 31-12-2019	Period ended 31-12-2018
Gain on disposal of assets	90	138
Gain on disposal of non-current assets	90	138
Other operating income	999	751
Damages and penalties	88	0
Release of allowances for receivables	608	38
Refund of the costs of court proceedings	184	585
Release of write-downs of inventories	26	39
Other	93	89
Total	1,089	889

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).

2.4. Other operating expenses

	Period ended 31-12-2019	Period ended 31-12-2018
Loss on disposal of assets	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses	779	751
Donations	38	28
Damages and penalties	0	267
Allowances for receivables	443	135
Costs of litigations	293	260
Other	5	61
Total	779	751

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).

2.5. Financial income

	Period ended 31-12-2019	Period ended 31-12-2018
Interest income	424	721
Interest on bank deposits	182	425
Interest on loans	43	99
Interest on receivables	199	197
Other financial income	1,041	1,491
Discount of long-term items	762	1,269
Guarantees	279	222
Total	1,465	2,212

In order to make the financial statements clearer, reinvoices have been jointly presented by ZUE (income and expenses according to their netted balance).

2.6. Financial expenses

	Period ended 31-12-2019	Period ended 31-12-2018
Interest expenses	1,469	842
Interest on credits	50	0
Interest on loans	78	0
Interest on leases	1,117	813
Interest on factoring liabilities	86	0
Interest on trade and other payables	138	29
Other financial expenses	377	111
Foreign exchange losses	59	41
Allowance for investments in related parties	35	58
Expenses relating to the costs of factoring	69	0
Commission expense	200	0
Other	14	12
Total	1,846	953

In order to make the financial statements clearer, reinvoices have been jointly presented by ZUE (income and expenses according to their netted balance).

In 2019, Interest on leases includes the interest of PLN 412 thousand on disclosed leases following the implementation of IFRS 16.

2.7. Corporate income tax

Corporate income tax recognised in statement of comprehensive income

	Period ended 31-12-2019	Period ended 31-12-2018
Current income tax	234	0
Deferred tax	2,551	-14,665
Total tax expense/income	2,785	-14,665

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 31-12-2019	Period ended 31-12-2018
Gross profit (loss)	5,920	-78,714
Income tax at the applicable rate of 19%	1,125	-14,956
Effect of tax recognition of:	-1,125	7,276
- Use of tax losses of prior years	842	0
- Costs that are not tax-deductible under tax regulations and tax-deductible expenses that are not balance sheet expenses	-440	13,377
- Revenue not classified as revenue under tax regulations and taxable revenue that is not balance sheet revenue	-157	6,101
Revaluation of deferred tax assets (current year loss)	0	7,680
Deferred tax	2,551	-14,665
Income tax adjustments	234	0
Income tax according to effective tax rate	2,785	-14,665
Effective tax rate	47%	19%

Current tax assets and liabilities

	Balance at 31-12-2019	Balance at 31-12-2018
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	0	0

Deferred tax balance

	Period ended 31-12-2019	Period ended 31-12-2018
Deferred tax balance at the beginning of the period	22,485	7,803
Temporary differences relating to deferred tax assets:	37,508	38,324
Provisions for expenses and accruals	16,636	18,573
Discount of receivables	158	249
Operating lease liabilities	2,425	1,480
Write-downs	1,007	1,143
Bonds and insurances accounted for over time	2,234	1,711
Tax work in progress	13,786	13,389
Measurement of long-term contracts	807	1,326
Other	455	453
Temporary differences relating to deferred tax liabilities:	32,046	31,173
Measurement of long-term contracts	18,865	19,646
Difference between the carrying and tax amount of property, plant and equipment and intangible assets	12,633	11,020
Discount of payables	543	488
Other	5	19
Unused tax losses and other tax credits carried forward:	14,492	15,334
Tax losses	14,492	15,334
Total temporary differences relating to deferred tax assets:	52,000	53,658
Total temporary differences relating to deferred tax liabilities:	32,046	31,173
Deferred tax balance at the end of the period	19,954	22,485
Change in deferred tax, including:	-2,531	14,682
- recognised in income	-2,551	14,665
- recognised in equity	20	17

Deferred tax recognised in equity results from the calculation of tax on actuarial gains/losses presented in other comprehensive income.

2.8. Components of other comprehensive income

Components of other comprehensive income:

	Period ended 31-12-2019	Period ended 31-12-2018
Actuarial gains (losses) relating to specific benefit schemes	106	92
Deferred tax	-20	-17
Amount recognised in other comprehensive income	86	75

2.9. Operating segments

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

The Company is organised and managed within the abovementioned segment. The Company applies a uniform accounting policy to all operating areas within the segment of construction and engineering services.

3. Contracts, retentions, provisions, advance payments and accruals

3.1. Construction contracts

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

Selected balance sheet data

	Period ended 31-12-2019	Period ended 31-12-2018
Revenue from long-term construction contracts	878,299	716,486
Costs of long-term construction contracts*)	872,261	759,494
Gross profit (loss) on long-term contracts	6,038	-43,008

*)The item does not contain a provision for contract losses or provision for warranty claims.

	Balance at 31-12-2019	Balance at 31-12-2018
Assets (selected items)	122,059	132,424
- Measurement of long-term construction contracts	99,287	103,400
- Advance payments made in connection with performed contracts	10,333	16,623
- Retentions on construction contracts retained by customers	12,439	12,401
Liabilities (selected items)	145,670	193,320
- Measurement of long-term construction contracts	4,247	6,980
- Provisions for contract costs	53,678	54,809
- Advance payments received in connection with performed contracts	27,788	75,007
- Retentions on construction contracts retained for suppliers	31,672	18,820
- Provisions for warranty claims	13,775	9,816
- Provisions for expected losses on contracts	14,510	27,888

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

Following the presentation changes in the separate statement of financial position, changes have also been made to the foregoing note relating to the comparative information discussed in the note 8.2.2.

3.2. Retentions on construction contracts

	Balance at 31-12-2019	Balance at 31-12-2018
Retained by customers – to be repaid after 12 months	9,455	9,463
Retained by customers – to be repaid within 12 months	2,984	2,938
Total retentions on construction contracts retained by customers	12,439	12,401
Retained for suppliers – to be repaid after 12 months	12,505	10,721
Retained for suppliers – to be repaid within 12 months	19,167	8,099

Total retentions on construction contracts retained for suppliers	31,672	18,820
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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.

Discount of long-term items

	Balance at 31-12-2019	Balance at 31-12-2018
Discount of long-term retentions on construction contracts retained by customers	832	1,309
Discount of long-term retentions on construction contracts retained for suppliers	1,430	1,395

	Balance at 31-12-2019	Balance at 31-12-2018
Financial income on the discount of retentions	512	1,099
Financial expenses on the discount of retentions	0	0
Deferred tax	97	209
Net effect on the statement of comprehensive income	415	890

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

	Balance at 31-12-2019	Balance at 31-12-2018
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	11	292
Total past due retentions on construction contracts (gross)	11	292
Write-downs	-11	-292
Total past due retentions on construction contracts (net)	0	0

Discount rate

The effective discount rate in 2019 used for deposit discounting was 2.1% (2.8% in 2018).

3.3. Provisions

Provisions	01-01-2019	Created	Used	Released	Reclassified	31-12-2019	Item
Long-term provisions:	8,908	5,634	357	0	-909	13,276	
Provisions for employee benefits	1,036	164	0	0	0	1,200	Liabilities under employee benefits (long-term)
Provisions for warranty claims	7,872	5,470	357	0	-909	12,076	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions

Short-term provisions:	43,504	22,553	13,398	18,930	909	34,638	
Provisions for employee benefits	13,672	19,937	13,117	2,063	0	18,429	Liabilities under employee benefits (short-term)
Provisions for warranty claims	1,944	0	281	873	909	1,699	Short-term provisions
Provision for loss on contracts	27,888	2,616	0	15,994	0	14,510	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	52,412	28,187	13,755	18,930	0	47,914	

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 release of provisions for expected losses on contracts results from the greater progress of works on the contracts. Greater progress of works entails the costs. With the greater progress of works on the projects with loss, a provision for losses is successively released.

Comparative information:

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	

3.4. Advance payments

Balance at

Balance at

	31-12-2019	31-12-2018
Advance payments transferred in connection with performed contracts	10,333	16,623
Other advance payments	0	0
Allowances for advance payments	-42	-42
Total advance payments due	10,291	16,581

ZUE receives advance payments from Investors and transfers them to subcontractors to ensure the timely performance of construction contracts.

	Balance at 31-12-2019	Balance at 31-12-2018
Advance payments received in connection with performed contracts	27,788	75,007
Other advance payments	0	0
Total advance payments received	27,788	75,007

The received advance payments are the prepayments received by the Company on the basis of relevant provisions of the contracts with PKP PLK to perform construction contracts. Certain advance payments received from the Contracting Authority were accounted for during the reporting period as the construction works progressed.

3.5. Accruals

	Balance at 31-12-2019	Balance at 31-12-2018
Provisions for contract costs	53,678	54,809
Other accruals	363	211
Total	54,041	55,020

Provisions for the costs of contracts comprise the provisions for the costs of subcontractors and the provisions for the risks associated with the settlement of contracts.

4. Trade and other receivables and payables

4.1. Trade and other receivables

	Balance at 31-12-2019	Balance at 31-12-2018
Trade receivables	188,796	183,411
Allowances for trade receivables in connection with the increase of credit risk	-17,805	-16,101
Allowances for trade receivables – initial for expected credit losses	-130	-60
Other receivables	4,272	4,253
Total trade and other receivables	175,133	171,503

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

Allowances in connection with the increase of credit risk of PLN 17,805 thousand comprise, in particular:

- Debit notes issued by the Company for penalties, damages and substitute performance. The amount is for presentation purposes only because the notes are not the Company's revenue at the date of issue.
- Receivables under court and enforcement cases.
- Doubtful debt.

Change in loss allowances on receivables

Change in allowances for trade receivables influencing the profit or loss includes the release of allowances of PLN 608 thousand and the recognition of allowances of PLN 443 thousand. The remaining balance is for

presentation purposes only and results, *inter alia*, from the debit notes issued by the Company for the penalties and damages that are not the Company's revenue at the date of issue.

Ageing analysis of trade receivables

	Balance at 31-12-2019	Balance at 31-12-2018
Not past due receivables	169,617	160,665
Receivables that are past due but not impaired	1,374	6,645
1-30 days	1,295	323
31-60 days	20	4,624
61-90 days	17	196
91-180 days	5	345
181-360 days	37	0
360 + days	0	1,157
Past due receivables for which allowances were recognized	17,805	16,101
1-30 days	333	1,173
31-60 days	158	168
61-90 days	0	1
91-180 days	623	1,345
181-360 days	1,555	726
360 + days	15,136	12,688
Total trade receivables (gross)	188,796	183,411
Allowances for trade receivables	-17,805	-16,101
Total trade receivables (net)	170,991	167,310

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

	Balance at 31-12-2019	Balance at 31-12-2018
Counterparty A	149,093	147,395

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 Counterparty meets additional requirements concerning the settlement of EU the 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 provisions.

4.2. Trade and other payables

	Balance at 31-12-2019	Balance at 31-12-2018
Trade payables	140,722	174,985
Liabilities to the state budget other than corporate income tax	15,848	30,798
Other payables	214	73
Total trade and other payables	156,784	205,856

Ageing analysis of trade payables

	Balance at 31-12-2019	Balance at 31-12-2018
Not past due payables	104,038	135,781
Past due payables	36,684	39,204
1-30 days	36,246	38,942
31-60 days	163	55
61-90 days	2	148
91-180 days	4	0
181-360 days	227	0
360 + days	42	59
Total trade payables	140,722	174,985

5. Equity

5.1. Share capital

At 31 December 2019, the amount of the registered share capital disclosed in the financial statements was PLN 5,757,520.75.

Share capital as at 16 March 2020

(PLN)

Class / issue	Type of shares	Number of shares	Amount 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 the shares are not limited.

At 31 December 2019, the share capital structure was the same as at 16 March 2020.

5.2. Profit (loss) per share

(PLN)

	Period ended 31-12-2019	Period ended 31-12-2018
Basic profit (loss) per share	0.14	-2.78
Diluted profit (loss) per share	0.14	-2.78

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 31-12-2019	Period ended 31-12-2018
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Profit (loss) per share for the financial year	0.14	-2.78
Total profit (loss) used in the calculation of basic profit per share	3,134,953.79	-64,049,975.43
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 per share

There are no diluting instruments.

5.3. Share premium account

	Period ended 31-12-2019	Period ended 31-12-2018
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 the years 2014-2019.

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 31-12-2019	Period ended 31-12-2018
Balance at the beginning of the year	49,337	113,461
Net profit distribution	-64,050	839
Reserve funds	-24,615	839
Capital reserve	-39,435	0
Coverage of loss of prior years	0	0
Profit (loss) of the current year	3,135	-64,049
Other net comprehensive income	-86	-75
Payment of dividend for the prior year	0	0
Balance at the end of the year	52,386	49,337
	Period ended 31-12-2019	Period ended 31-12-2018
Reserve funds (without share premium account)	30,001	55,637
Capital reserve	0	39,435
Capital reserve associated with comprehensive income	-326	-240

Undistributed profit (loss) brought forward	0	-1,021
Profit (loss) brought forward relating to the settlement of revaluation capital	2,394	2,271
Profit (loss) of the current year	3,135	-64,049
Effects of the implementation of IFRS at ZUE	451	451
Revaluation capital	16,731	16,853
Retained earnings	52,386	49,337

A capital reserve is created by the Company according to the Company's Articles of Association. The Company's profit to be distributed in subsequent periods or used to cover other expenses may be allocated to the 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.

No dividend was paid by the Company in the reporting period.

On 6 June 2019, the Ordinary General Meeting of the Company resolved to:

- 1) cover the net loss for the financial year 2018 of PLN 64,050 thousand in the following manner:
 - a) the net loss for the financial year 2018 of PLN 39,435 thousand should be covered from capital reserve;
 - b) the net loss for the financial year 2018 of PLN 24,615 thousand should be covered from reserve funds; and
- 2) cover the undistributed loss of prior years of PLN 1,021 thousand from reserve funds.

6. Debt and management of capital and liquidity

The Company cooperates with a number of banks to ensure the proper financing of ongoing activities and to obtain bank guarantees required to carry out intended projects.

In the reporting period, the Company used own resources, loans and credit limits to finance day-to-day operations. At 31 December 2019, the Company had overdraft and working credit facility limits in the total amount of PLN 70,000 thousand. The bond limits provided by banks and insurance companies amounted to PLN 198,290 thousand.

6.1. Loans and bank credits

	Balance at 31-12-2019	Balance at 31-12-2018
Long-term	13,333	0
Bank credits	0	0
Loans received	13,333	0
Short-term	6,667	0
Bank credits	0	0
Loans received	6,667	0
Total	20,000	0

Summary of loan and credit agreements

Balance at 31 December 2019

No.	Bank	Description	Principal/limit according to the agreement as at 31-12-2019	Amount of available loans/credits as at 31-12-2019	Use as at 31-12-2019	Interest	Repayment date
1	mBank S.A.	Overdraft	10,000	10,000	0	O/N WIBOR + margin	July 2020
2	mBank	Master agreement	50,000		0	1M WIBOR +	July 2020

S.A. (i)				margin	
		including:			
		sublimit for bonds	50,000		0
		sublimit for working credit facilities	40,000	40,000	0
3	BGŻ BNP PARIBAS S.A.	Multipurpose credit line agreement	170,000	52,621	1M WIBOR + margin January 2020
		including:			
		sublimit for bonds	170,000		52,621
		sublimit for working credit facilities	20,000	20,000	0
4	Agencja Rozwoju Przemysłu S.A.	Loan agreement	20,000	0	20,000 1M WIBOR + margin June 2022
Total amount of available loans and credits			70,000		
Total debt under loans and credits				20,000	
Total use for bonds				52,621	

(i) ZUE is able to use the limit for both working credit facility and bonds.

Types of security and liabilities under credit agreements:

1. **Overdraft** – promissory note.
2. **Master agreement:**
 - a) Mortgage;
 - b) Statement on submission to enforcement.
3. **Multipurpose credit line agreement:**
 - a) Promissory note;
 - 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 insurance policy;
 - f) Statement on submission to enforcement.
4. **Loan agreement:**
 - a) Mortgage;
 - b) Registered pledge;
 - c) Assignment of rights under insurance policy;
 - d) Assignment of claims under contracts.

The following amendments were made in the reporting period to the loan and credit agreements signed by the Company:

- mBank - Overdraft (item 1) – the credit was extended for another term under the Annex of 27 June 2019.
- mBank - Master Agreement (item 2) - the sublimit for working credit facility was raised to PLN 40,000 thousand and the agreement name was changed to Master Agreement under the Annex of 21 February 2019.
- BNP Paribas – Multipurpose Credit Line Agreement (item 3) – the limit was provided by the bank to be used by 31 January 2020.
- Agencja Rozwoju Przemysłu (item 4) – on 19 November 2019, the Company signed the new Loan Agreement of up to PLN 20,000 thousand. The loan would be used to finance day-to-day operations.

After the end of the reporting period:

- On 28 January 2020, the Company and BNP Paribas signed an annex to the Multipurpose Credit Line Agreement (item 3) whereby the line was extended for another year and the available limit was reduced from PLN 170m to PLN 100m to be used exclusively for bonds.

Comparative information:

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		

6.2. Leases

Lease liabilities

	Balance at 31-12-2019	Balance at 31-12-2018
Long-term lease liabilities	12,385	14,781
Short-term lease liabilities	9,931	12,963
Total	22,316	27,744

The increase in lease liabilities following the implementation of IFRS 16 as at 1 January 2019 amounted to PLN 7,904 thousand. Note 8.1.5 contains the details.

No leasebacks were signed by the Company in the reporting period.

	Minimum lease payments		Present value of minimum lease payments	
	Balance at 31-12-2019	Balance at 31-12-2018	Balance at 31-12-2019	Balance at 31-12-2018
Not later than one year	10,645	13,657	9,931	12,963
Later than one year and not later than five years	8,599	15,229	7,127	14,781
Later than five years	19,553	0	5,258	0
Less: future finance charges	-16,481	-1,142	0	0
Present value of minimum lease payments	22,316	27,744	22,316	27,744

General terms of lease

The leases signed by the Company mainly concern vehicles, land and buildings. The term of the 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 liabilities under finance leases are secured by the lessor's title to the leased assets and a blank promissory note. The leases concerning land and buildings are usually concluded for the term of the contract. The leasehold land is used on the basis of administrative decisions and except for the investment property in Kościelisko where the term of lease is 39 years, leases have been concluded for 89 years.

Short-term and low value leases

	Period ended 31-12-2019
Short-term lease	3,350
Low value asset leases	62
Total	3,412

The Company applied IFRS 16 and used the following practical solutions offered by the standard:

1. Not to recognise operating leases with a lease term less than 12 months from 1 January 2019, which were treated as short-term leases; and
2. Not to recognise leases where the underlying asset has a low value; i.e. PLN 20 thousand.

Lease details are presented by the Company in the following notes:

No.	Note	Amount
2.2	Depreciation and amortisation	3,742
2.6	Financial expenses – interest on leases	1,117
6.2	Leases – lease liabilities	22,316
6.2	Leases – short-term and low value leases	3,412
7.2	Right-of-use assets	56,059

6.3. Management of capital

The Company reviews the capital structure each time for the purpose of the financing of major contracts/orders.

During the 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 the capital.

	Balance at 31-12-2019	Balance at 31-12-2018
Long- and short-term loans and bank credits	20,000	0
Long- and short-term lease liabilities	22,316	27,744
Long- and short-term other financial liabilities	36	36
Total financial liabilities	42,352	27,780
Cash and cash equivalents	27,979	79,404
Net debt	14,373	-51,624
Equity	149,291	146,242
Net debt to equity ratio	9.63%	-35.30%

The Company uses own resources, loans, credits and leases to finance day-to-day operations.

Changes in liabilities resulting from financing activities

Item	01-01-2019	OB adjustment	Balance at 1 Jan 2019 after OB adjustment	Cash flows (change)	Change on gain/loss of control	Change on exchange gains/losses	Change on conclusion of new leases	Reclassification	31-12-2019
Long-term loans and bank credits	0	0	0	13,333	0	0	0	0	13,333
Long-term lease liabilities	14,781	6,444	21,225	0	0	0	597	-9,437	12,385
Long-term other financial liabilities	0	0	0	0	0	0	0	0	0
Short-term loans and bank credits	0	0	0	6,667	0	0	0	0	6,667
Short-term lease liabilities	12,963	1,460	14,423	-15,174	0	0	1,245	9,437	9,931
Short-term other financial liabilities	36	0	36	0	0	0	0	0	36
Total financing liabilities	27,780	7,904	35,684	4,826	0	0	1,842	0	42,352

6.4. Financial risk management

The main financial instruments used by the Company include:

- Leases;
- Credits;
- Receivables factoring;
- Loans to finance day-to-day operations;
- Trade and other receivables and payables as well as cash and short-term deposits arising during the course of the Company's operations.

The Company's operations 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 thereof.

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 2019.

The following table presents the sensitivity of the profit or loss of the period to reasonably possible changes in foreign exchange rates assuming that other factors remain unchanged (the effect on the profit or loss of the year and net assets is identical).

Currency	Nominal value at the end of the reporting period	Sensitivity to changes at 31 December 2019	
		Depreciation of PLN	Appreciation of other

			currencies	
			+5%	-5%
Cash	EUR	699	35	-35
	USD	148	7	-7
	HRK	1	0	0
Trade and other payables	EUR	1,527	-76	76
Trade and other receivables	EUR	0	0	0
Gross effect on profit or loss of the period and net assets			-34	34
Deferred tax			6	-6
Total			-28	28

The Company had no hedging currency futures at 31 December 2019 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 the 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 2019. 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 2019.

	Amount at the end of the reporting period	Balance at 31-12-2019	
		+100 bp	-100 bp
Long-term retentions on construction contracts (discount):			
– recognised in assets (present value)	9,455	-362	384
– recognised in liabilities (present value)	12,505	-607	653
Cash at banks	27,979	280	-280
Advanced loans	202	2	-2
Bank credits and loans	20,000	-200	200
Lease liabilities	22,316	-223	223
Gross effect on profit or loss of the period and net assets		-1,110	1,178
Deferred tax		211	-224
Total		-899	954

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 later dates 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 and aims to reduce the concentration of credit risk.

The Company's financial assets exposed to increased credit risk include trade receivables (excluding receivables from contracting authorities (investors) in connection with the projects carried out 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.

The nature of construction activities requires the Company to use a considerable part of its working capital to perform the contracts due to their relatively high value and a long time of their performance. Accordingly, a failure of the Company's customers to timely settle their liabilities to the Company directly influences the Company's financial results.

Liquidity risk

The Company reduces liquidity risk by keeping sufficient cash and concluding multi-purpose credit line agreements which serve as an additional safeguard against the loss of liquidity. The Company uses own resources, credits and long-term finance lease agreements to finance capital expenditures and to ensure a stable financing structure for such 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 7.15 – Financial instruments.

6.5. Cash and cash equivalents

	Balance at 31-12-2019	Balance at 31-12-2018
Cash on hand and at banks	27,979	79,404
Bank deposits up to three months	0	0
TOTAL	27,979	79,404

The cash decreased at the end of 2019 after it had been used to conduct operating activities.

The cash does not include the cash on escrow accounts attributable to consortium members. The Company believes that the cash does not meet the definition of an asset and is not presented in the balance sheet. As at 31 December 2018, the cash kept on escrow accounts maintained by ZUE amounted to PLN 2,962 thousand. As at 31 December 2019, there was no cash attributable to consortium members on escrow accounts.

Discussion of items of the statement of cash flows

The Company's cash flows from operating activities were mainly influenced by changes in payables, advance payments and inventories.

Cash flows from investing activities were mainly influenced by the purchase of non-current assets financed with own resources and the repayment of granted loans.

Cash flows from financing activities were influenced by loans and credits as well as a decrease in lease liabilities.

	Balance at 31-12-2019	Balance at 31-12-2018
Cash flows from operating activities	-52,549	-21,487
Cash flows from investing activities	-2,508	-17,668
Cash flows from financing activities	3,634	2,384

Total net cash flows	-51,423	-36,771
Cash at the beginning of the period	79,404	116,144
Cash at the end of the period	27,979	79,404

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 2019	0	24,634	51,268	85,378	2,147	163,427	302	0	163,729
Opening balance adjustment		0	-19,437	-35,890	0	-55,327	0	0	-55,327
Balance at 1 January 2019 after opening balance adjustment	0	24,634	31,831	49,488	2,147	108,100	302	0	108,402
Additions	0	91	1,286	2,791	103	4,271	738	27	5,036
Reclassification – right-of-use*	0	0	3,887	3,813	0	7,700			7,700
Transfer to non-current assets	0	0	0	0	0	0	663	0	663
Sale/liquidation	0	0	662	506	63	1,231	0	0	1,231
Balance at 31 December 2019	0	24,725	36,342	55,586	2,187	118,840	377	27	119,244

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 2019	0	8,498	22,207	29,445	1,764	61,914	0	0	61,914
Opening balance adjustment	0	0	-1,964	-1,919	0	-3,883			-3,883
Balance at 1 January 2019 after opening balance adjustment	0	8,498	20,243	27,526	1,764	58,031	0	0	58,031
Elimination on disposal of assets	0	0	649	425	62	1,136	0	0	1,136
Reclassification – right-of-use* - depreciation expense	0	0	599	343	0	942	0	0	942
Depreciation expense	0	717	2,483	4,420	92	7,712	0	0	7,712
Balance at 31 December 2019	0	9,215	22,676	31,864	1,794	65,549	0	0	65,549

Carrying amount

Balance at 1 January 2019	0	16,136	29,061	55,933	383	101,513	302	0	101,815
Balance at 1 January 2019 after opening balance adjustment		16,136	11,588	21,962	383	50,069	302	0	50,371
Balance at 31 December 2019	0	15,510	13,666	23,722	393	53,291	377	27	53,695

*Purchase at the end of the lease.

No impairment losses were recognised by the Company in the reporting period.

As at 31 December 2019, the amount of net liabilities incurred to purchase property, plant and equipment was PLN 1,020 thousand. As at 31 December 2019, the gross carrying amount of fully depreciated property, plant and equipment still used by the Company was PLN 16,056 thousand.

The item Opening balance adjustment results from the implementation of IFRS 16.

Assets pledged as security

The types of security for the bank agreements concerning property, plant and equipment are discussed in the note 7.22.

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 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	TOTAL
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								construction	
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

7.2. Investment property

Gross value	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2019	126	5,228	7,409	0	0	0	12,763
Opening balance adjustment	0	1,359	0	0	0	0	1,359
Balance at 1 January 2019 after opening balance adjustment	126	6,587	7,409	0	0	0	14,122
Additions	0	0	0	0	0	0	0
Impairment	0	0	0	0	0	0	0
Sale/liquidation	0	0	0	0	0	0	0
Balance at 31 December 2019	126	6,587	7,409	0	0	0	14,122

Depreciation	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2019	0	1,677	2,444	0	0	0	4,121
Opening balance adjustment	0	0	0	0	0	0	0
Balance at 1 January 2019 after opening balance adjustment	0	1,677	2,444	0	0	0	4,121
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	221	293	0	0	0	514
Balance at 31 December 2019	0	1,898	2,737	0	0	0	4,635

Carrying amount	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2019	126	3,551	4,965	0	0	0	8,642
Balance at 1 January 2019 after opening balance adjustment	126	4,910	4,965	0	0	0	10,001
Balance at 31 December 2019	126	4,689	4,672	0	0	0	9,487

The investment property as at 31 December 2019 comprised the following pieces of real estate:

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

All investment properties are held by the Company either as freehold or leasehold interests.

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

The item Opening balance adjustment results from the implementation of IFRS 16.

The investment property was measured at purchase price less impairment losses. The revenue from the lease of investment property was PLN 372 thousand in 2019 (PLN 375 thousand in 2018). Operating expenses relating to investment property amounted in 2019 to PLN 730 thousand (PLN 821 thousand in 2018).

Assets pledged as security

The types of security for the bank agreements concerning investment property are discussed in the note 7.22.

Comparative information:

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

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(in PLN '000, unless otherwise provided)

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

7.3. Non-current assets held for sale

No non-current assets held for sale were held by the Company at 31 December 2019 or 31 December 2018.

7.4. Intangible assets

Structure of intangible assets:

	Balance at 31-12-2019	Balance at 31-12-2018
Acquired concessions, patents, licenses and similar assets, including:	1,484	190
- Software	1,484	190
Other intangible assets, including:	0	7,925
- Leasehold	0	7,925
Total	1,484	8,115

Movements in intangible assets:

	Leasehold	Other intangible assets – software	Total
Gross value			
Balance at 1 January 2019	9,038	3,920	12,958
Opening balance adjustment	-9,038	0	-9,038
Balance at 1 January 2019 after opening balance adjustment	0	3,920	3,920
Additions	0	1,395	1,395
Sale/liquidation	0	56	56
Balance at 31 December 2019	0	5,259	5,259
Amortisation and impairment			
Balance at 1 January 2019	1,113	3,730	4,843
Opening balance adjustment	-1,113	0	-1,113
Balance at 1 January 2019 after opening balance adjustment	0	3,730	3,730
Amortisation expense	0	101	101
Sale/liquidation	0	56	56
Balance at 31 December 2019	0	3,775	3,775
Carrying amount			
Balance at 1 January 2019	7,925	190	8,115
Balance at 1 January 2019 after opening balance adjustment	0	190	190
Balance at 31 December 2019	0	1,484	1,484

Comparative information:

	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

No impairment losses were recognised by the Company in 2019 or 2018.

Opening balance adjustment results from the implementation of IFRS 16.

7.5. Right-of-use assets

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total right-of-use assets	Right-of-use assets under construction	Prepaid right-of-use assets under construction	TOTAL
Balance at 1 January 2019	0	0	0	0	0	0	0	0	0	0
Opening balance adjustment	812	13,164	932	19,438	36,564	0	70,910	0	0	70,910
Balance at 1 January 2019 after opening balance adjustment	812	13,164	932	19,438	36,564	0	70,910	0	0	70,910
Conclusion of new contracts	510	0	406	0	868	0	1,784	0	0	1,784
Changes resulting from the amendments to contracts	-17	0	0	0	-24	0	-41	0	0	-41
Reclassification – right of use*	0	0	0	-3,887	-3,813	0	-7,700	0	0	-7,700
Changes resulting from the shortening of contracts	-66	0	-181	0	0	0	-247	0	0	-247
Balance at 31 December 2019	1,239	13,164	1,157	15,551	33,595	0	64,706	0	0	64,706

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total right-of-use assets	Right-of-use assets under construction	Prepaid right-of-use assets under construction	TOTAL
Balance at 1 January 2019	0	0	0	0	0	0	0	0	0	0
Opening balance adjustment	0	1,112	0	1,964	1,920	0	4,996	0	0	4,996
Balance at 1 January 2019 after opening balance adjustment	0	1,112	0	1,964	1,920	0	4,996	0	0	4,996
Depreciation expense	570	164	674	898	2,378	0	4,684	0	0	4,684
Reclassification – right of use* - depreciation expense	0	0	0	-599	-343	0	-942	0	0	-942
Elimination on the shortening of contract	35	0	56	0	0	0	91	0	0	91
Balance at 31 December 2019	535	1,276	618	2,263	3,955	0	8,647	0	0	8,647

Carrying amount

Balance at 1 January 2019	0	0	0	0	0	0	0	0	0	0
Balance at 1 January 2019 after opening balance adjustment	812	12,052	932	17,474	34,644	0	65,914	0	0	65,914
Balance at 31 December 2019	704	11,888	539	13,288	29,640	0	56,059	0	0	56,059

*Purchase at the end of the lease.

The item Opening balance adjustment results from the implementation of IFRS 16.

Assets pledged as security

The Company's lease liabilities (note 6.2.) are secured with the lessor's title to the leased assets (vehicles, machines and equipment).

7.6. Goodwill

	Balance at	Balance at
	31-12-2019	31-12-2018
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 (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 of taking control of PRK by ZUE in 2010 and result 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 goodwill is assigned in full to the construction segment.

Annual goodwill impairment test

The test was carried out using the FCF 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 with the discounted future cash flows method. The rate of average weighted cost of capital including the projected structure and the cost of financing, and the market risks was 8.3%.

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 2019.

The impairment tests carried out at 31 December 2019 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

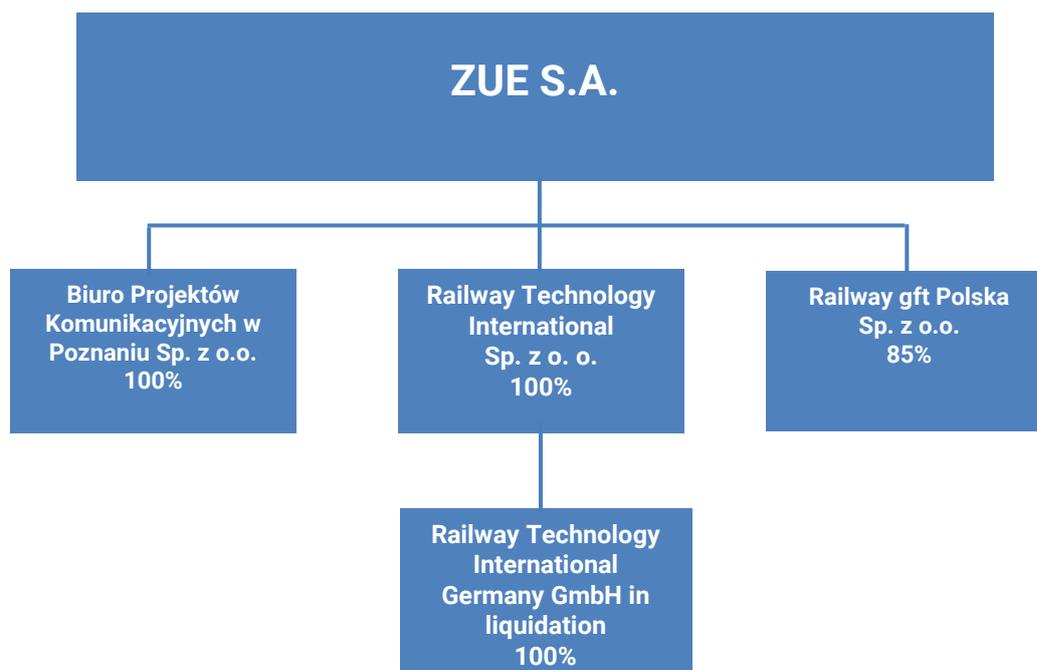
If the useful value of an asset generating cash is estimated, the management personnel is convinced that no reasonably possible change to any key assumption will cause the carrying amount of the said asset to substantially exceed its recoverable value.

7.7. 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 2019 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, the Lubicz Street no. 3 (Rep. A no. 3715/2014). Cracow is the company's registered office. The company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry no. KRS 0000532311.

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

Subsidiary (indirectly through RTI) – Railway Technology International Germany GmbH in liquidation 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. RTI Germany GmbH is in liquidation. The financial statements of the consolidated 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 31-12-2019	Balance at 31-12-2018	Balance at 31-12-2019	Balance at 31-12-2018
Railway GFT Polska Sp. z o.o.	Sales activities	Cracow	85%	85%	221	221
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%	100%	211	176
Total investments in subordinates					9,194	9,159
Allowance for shares of BPK Poznań (cumulative)					8,762	8,762
Allowance for shares of RTI (cumulative)					211	176
Total investments in subordinates net of allowances					221	221

ZUE has the power 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 financial statements were prepared by the Company for the financial year ended 31 December 2019. The financial statements were approved of on 16 March 2020. ZUE is the Parent Company of the Group.

7.8. Other financial assets

No other financial assets were held by the Company at 31 December 2019 or 31 December 2018.

7.9. Other assets

	Current assets	
	Balance at 31-12-2019	Balance at 31-12-2018
Prepayments	805	752
Other receivables	9	12
Total	814	764

The amount of short-term prepayments mainly includes property insurance.

7.10. Advanced loans

	Balance at 31-12-2019	Balance at 31-12-2018
Loans advanced to related parties	278	2,863
Loans advanced to third parties	285	288
Impairment losses	-361	-347
Total	202	2,804

Advanced loans include principal and interest charged at the end of the reporting period. In the reporting period, the Company granted special-purpose loans of PLN 317 thousand to related parties.

7.11. Inventories

	Balance at 31-12-2019	Balance at 31-12-2018
Goods, raw and other materials	24,303	36,578
Work-in-progress	612	534
Finished goods	199	199
Total	25,114	37,311

Inventories decreased after they had been used for the performance of 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 limited supply caused by the accumulation of railway works.

7.12. Other financial liabilities

	Current	
	Balance at 31-12-2019	Balance at 31-12-2018
Liabilities under dividends	36	36
Other	0	0
Total	36	36

7.13. Other liabilities

	Non-current	
	Balance at 31-12-2019	Balance at 31-12-2018
Other liabilities	0	70
Total	0	70

Other non-current liabilities at 31 December 2018 of PLN 70 thousand arise from the purchase of real estate from a subsidiary.

7.14. Liabilities under employee benefits

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

	Balance at 31-12-2019	Balance at 31-12-2018
Pension and retirement gratuities, including:	1,309	1,082
– present amount of obligation at the end of the reporting period	1,309	1,082
– 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	27,562	22,057
– provision for unused leaves	5,254	4,519
– provision for bonuses	13,066	9,107
– salaries and wages	4,858	4,289

– social security and other benefits	4,384	4,142
Total obligation under retirement and other benefits	28,871	23,139
including:		
– long-term	1,200	1,036
– short-term	27,671	22,103

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.

Main actuarial assumptions for calculating liabilities under pension and retirement gratuities:

	Balance at 31-12-2019	Balance at 31-12-2018
Discount rate	2.01%	2.73%
Expected future rise in salaries and wages	2.5%	2.5%

Pension and retirement gratuities

	Period ended 31-12-2019	Period ended 31-12-2018
Present amount of obligation at the beginning of the period	1,082	953
Interest expense	28	29
Current service cost	135	98
Past service cost	0	0
Benefits paid	-42	-90
Actuarial (gains) / losses	106	92
Present amount of obligation at the end of the period	1,309	1,082

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

	Period ended 31-12-2019	Period ended 31-12-2018
Current service cost	135	98
Interest expense	28	29
Actuarial (gains) / losses to be recognised in the period	106	92
Past service cost	0	0
Costs recognised in statement of comprehensive income	269	219
Amount recognised in profit or loss	163	127
Amount recognised in other comprehensive income (without deferred tax)	106	92

	Period ended 31-12-2019	Period ended 31-12-2018
Actuarial gains (losses) relating to specific benefit schemes	106	92
Deferred tax	-20	-17
Amount recognised in other comprehensive income	86	75

The Company has recognised actuarial gains and losses in the statement of comprehensive income since 1 January 2013 in connection with amendments made to IAS 19 *Employee Benefits*. 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 2019 to the key parameters of actuarial model. The first line presents 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	1,231	78	1,309
rotation rate -1.0%	1,270	81	1,351
rotation rate +1.0%	1,197	75	1,272
probability of drawing pensions -0.5	1,237	65	1,302
probability of drawing pensions +0.5	1,226	90	1,316
technical discount rate -1.00%	1,350	83	1,433
technical discount rate +1.00%	1,131	73	1,204
rise in bases	0	0	0
remuneration at the Company -1.0%	1,131	73	1,204
remuneration at the Company +1.0%	1,348	83	1,431

7.15. 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 2019

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)	13,260	0	0	0	33,102
Trade receivables	188,796	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	202	0	0	0	0
Cash and cash equivalents	27,979	0	0	0	0
Loans and bank credits	0	0	0	0	20,000
Lease liabilities	0	0	0	0	22,316
Trade payables	0	0	0	0	140,722
Total	230,237	0	0	0	216,176

No changes to the classification of financial instruments or shifts between individual levels of goodwill occurred in the reporting period.

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	0	0	0	0	0

Lease liabilities	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 instruments according to IFRS 9 effective since 1 January 2018.

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

	Balance at 31-12-2019	Balance at 31-12-2018
Age structure		
– less than 1 year	176,481	196,024
– 1 - 3 years	23,693	20,114
– 3 - 5 years	1,534	2,084
– 5 years +	14,468	4,758
Total	216,176	222,980

Derivative instruments

No derivative instrument transactions were entered into by the Company in 2019 or 2018.

7.16. Transactions with related parties

Sales transactions

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

	Receivables		Payables	
	Balance at		Balance at	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Railway gft	0	60	1,196	3,745
BPK Poznań	1,222	1,315	1,503	3,038
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	1,222	1,375	2,699	6,783

	Revenue		Purchases	
	Period ended		Period ended	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Railway gft	484	365	12,104	11,744
BPK Poznań	543	572	6,946	8,456
RTI	3	3	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	48	0	0	0
Total	1,078	940	19,050	20,200

	Advanced loans		Financial income (interest)	
	Balance at		Period ended	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Railway gft	0	2,783	35	97
BPK Poznań	202	0	7	0
RTI	0	21	0	1
RTI Germany	76	59	0	1
Wiesław Nowak	0	0	0	0

Total	278	2,863	42	99
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In the reporting period, transactions were entered into between ZUE and subsidiaries, and the related parties on arm's length terms.

In the reporting period, ZUE sold the following services to the related parties:

- o Lease of rooms, including utilities and phone bills;
- o Financial services; and
- o Re invoicing of costs.

In the reporting period, ZUE imposed contractual penalties in the total amount of PLN 580 thousand on the consortia whose leader was BPK Poznań. The Company did not recognise the penalties in revenues.

In the reporting period, ZUE bought the following services from the related parties:

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

In the reporting period, ZUE executed the following transactions:

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

On 7 January 2019, ZUE and RTI Germany signed the loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 4,000 to be repaid by 20 December 2019. The loan was disbursed on 11 January 2019.

On 26 February 2019, ZUE and BPK Poznań signed the loan agreement whereby BPK Poznań was granted a special-purpose loan of PLN 300 thousand to be repaid within 36 months of the disbursement date. Principal and interest should be repaid monthly. The loan was disbursed on 21 March 2019.

On 29 March 2019, ZUE and Railway gft signed an annex no. 1 to the loan agreement of 24 January 2018 whereby the loan repayment date was extended until 30 June 2019. Under the agreement, the loan could be repaid in instalments. The last instalment including interest was paid on 10 June 2019.

On 12 April 2019, the Extraordinary Shareholders Meeting resolved to increase the share capital of RTI as a result of which ZUE acquired the newly created shares of RTI for 35 thousand.

On 29 April 2019, RTI repaid the loans advanced by ZUE together with interest. The repayment concerned the loan agreements of 26 May 2017, 7 December 2017 and 13 April 2018.

On 19 June 2019, ZUE and RTI Germany signed the annex no. 4 to the loan agreement of 31 May 2016 whereby the repayment date was extended until 20 December 2019. On 19 December 2019, ZUE and RTI Germany signed the annex no. 5 to the abovementioned agreement whereby the repayment date was extended until 20 December 2020.

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 guarantees as at 31 December 2019 is PLN 24,530 thousand.

On 1 October 2019, ZUE and Railway gft signed the agreement for the guarantee of liabilities, which replaced the existing agreement. The amendments concerned the fee for the guarantee of liabilities. The agreement was concluded for indefinite period.

On 1 October 2019, ZUE and BPK Poznań signed the agreement for the guarantee of liabilities, which replaced the existing agreement. The amendments concerned the fee for the guarantee of liabilities. The agreement was concluded for indefinite period.

On 31 October 2019, ZUE made the advance payment of PLN 700 thousand to BPK Poznań on account of performed contracts.

On 11 February 2020, ZUE and BPK Poznań signed the loan agreement whereby BPK Poznań was granted a special-purpose loan of PLN 600 thousand to be repaid 20 December 2020. The loan was disbursed on 21 February 2020.

On 21 February 2020, ZUE and RTI Germany signed the loan agreement whereby a special-purpose loan of EUR 7,000 was granted with the repayment date until 20 December 2020. EUR 4000 was paid on the date of the agreement and the remaining amount of EUR 3000 would be paid at request.

Remuneration of key management personnel

	Period ended 31-12-2019	Period ended 31-12-2018
Management Board	4,776	4,111
Supervisory Board	371	394
Total	5,147	4,505

7.17. 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.

7.18. 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 of 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 or countable tax risks were recognised by the Company at 31 December 2019 or 31 December 2018.

Customs and tax inspection was carried out at ZUE in the reporting period in connection with the tax on income earned in 2014. Pursuant to Art. 82.3 of the Polish Act on National Tax Administration, the Company adjusted the previously submitted tax return and paid the tax of PLN 234 thousand plus interest. The adjustment concerned the acquisition of shares in exchange for claims. The inspection was finished.

7.19. Remuneration of key management personnel

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

	Term	Remuneration	Term	Remuneration
Management Board				
Wiesław Nowak	01.2019-12.2019	1,460	01.2018-12.2018	1,334
Anna Mroczek	01.2019-12.2019	746	01.2018-12.2018	637
Jerzy Czeremuga	01.2019-12.2019	680	01.2018-12.2018	568
Maciej Nowak	01.2019-12.2019	710	01.2018-12.2018	618
Marcin Wiśniewski	01.2019-12.2019	680	01.2018-12.2018	544
Proxies				
Magdalena Lis	01.2019-12.2019	500	01.2018-12.2018	410
Supervisory Board				
Mariusz Szubra	01.2019-12.2019	39	01.2018-12.2018	12

Barbara Nowak	01.2019-12.2019	31	01.2018-12.2018	204
Bogusław Lipiński	01.2019-12.2019	31	01.2018-12.2018	12
Piotr Korzeniowski	01.2019-12.2019	31	01.2018-12.2018	12
Michał Lis	01.2019-12.2019	239	01.2018-12.2018	154
Total		5,147		4,505

The remuneration of the Management Board members is determined by the Supervisory Board and the remuneration of the key management personnel is determined by the Management Board President (the main shareholder of the Company) having regard to the performance of individuals and market trends.

The remuneration of Mr. Michał Lis is the remuneration paid under the employment contract plus the remuneration for his service as the Supervisory Board member.

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.

7.20. Dividend

No dividend was paid by the Company in the reporting period.

On 6 June 2019, the Ordinary General Meeting of the Company resolved to cover the net for the financial year 2018 of PLN 64,050 thousand in the following way:

- 1) the net loss for the financial year 2018 of PLN 39,435 thousand would be covered from capital reserve; and
- 2) the net loss for the financial year 2018 of PLN 24,615 thousand would be covered from reserve funds.

7.21. Liabilities incurred to purchase property, plant and equipment

No capital expenditure agreements were concluded at 31 December 2019 or 31 December 2018.

7.22. Contingent assets and contingent liabilities

Contingent assets

	Balance at 31-12-2019	Balance at 31-12-2018
Bonds	76,049	70,125
Guarantees	0	0
Bills of exchange	4,254	7,470
Mortgages	0	0
Pledges	300	0
Total	80,603	77,595

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

Apart from the bonds and bills of exchange, ZUE is the pledgee in connection with the pledge on movables established by a related party.

Contingent liabilities

	Balance at 31-12-2019	Balance at 31-12-2018
Bonds	508,375	587,879
Guarantees	24,530	24,951
Bills of exchange	388,745	342,424
Mortgages	30,000	54,259
Pledges	18,016	19,927

Total	969,666	1,029,440
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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 promissory notes.

Mortgages are additional security for the credit agreement with mBank S.A. and the insurance agreement with PZU S.A. and the agreements between the related parties and BNP Paribas Bank Polska S.A. A new mortgage was established in 2019 for the benefit of Agencja Rozwoju Przemysłu S.A. to secure the loan agreement.

Registered pledges were established to secure the agreements entered into with BNP Paribas Bank Polska S.A., PEKAO S.A. and to secure the loan agreement entered into with Agencja Rozwoju Przemysłu S.A. The pledged assets include wagons, pile driver, maintenance train, engine and profiling machine.

The pledge for the benefit of Bank Gospodarstwa Krajowego was removed in the reporting period from the register of pledges.

On 15 January 2020, the Company and InterRisk Towarzystwo Ubezpieczeń S.A. signed the agreement for the provision of project-related bonding products. The Company was granted the limit of PLN 10m. The term of the agreement is 15 January 2020 - 9 December 2020.

7.23. Discontinued operations

No operations were discontinued within the meaning of IFRS 5 in 2019 or the comparative period.

7.24. Revisions to estimates

The following revisions to estimates occurred in 2019:

1/ Construction contracts accounted for using percentage-of-completion method – the revision was influenced by the review of the construction contract budgets; and
2/ Useful economic lives of non-current assets – the revision was influenced by the annual review of useful economic lives. The estimates relate, *inter alia*, to:

1. Impairment of goodwill (note no. 7.6.)
2. Useful economic lives of non-current assets (note no. 8.2.10., note no. 8.2.12. and note no. 8.2.16.)
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. 7.18.)

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 2019 and the comparative information for the financial year ended 31 December 2018 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 2019:

- **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);
- **Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"** (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 following from the review of IFRS 2015-2017** (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).

The Company believes that except for IFRS 16, the amendments to the standards or interpretations do not have any considerable influence on the separate financial statements of ZUE.

The implementation of IFRS 16 has been discussed in detail in the note 8.1.5.

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:

- **Amendments to IAS 1 and IAS 8: "Definition of Material"** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

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 new standards or amendments to the standards not yet approved for use in the EU at the date of preparation of this report:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** (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);
- **Amendments to IFRS 9, IAS 39 and IFRS 7 - "Interest Rate Benchmark Reform"** (effective for annual periods beginning on or after 1 January 2020).

8.1.5. Changes in applied accounting principles

Implementation of IFRS 16

Application 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 applied 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 recognised 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 related 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 used 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 used the following practical solutions approved of by the standard:

1. Not to recognise operating leases with a lease term less than 12 months from 1 January 2019, which were 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 amount of discounted lease payments range, depending on the term of the lease, from 3.04% to 6.3% for PLN- and EUR-denominated contracts.

Impact on the Company's accounting

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

1. Application of IFRS 16 to lease contracts previously classified as operating leases under IAS 17 caused the recognition of right-of-use assets and lease liabilities.
2. Non-current assets held under finance lease contracts previously presented under property, plant and equipment were presented under right-of-use assets.
3. Lease liabilities previously classified as finance lease contracts under IAS 17 and disclosed under loans and bank credits and other financing sources were presented in (short- and long-term) lease liabilities.
4. The disclosure requirements contained in IAS 40 were applied to right-of-use assets which met 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	673
Lease of apartments, land and office equipment	1,745
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

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

Lease of cars 673
Lease of apartments, land and office equipment 1,745
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 recognised 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	Approved	Effect of changes
	IFRS 16		
	Balance at	Balance at	
	01-01-2019	31-12-2018	
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	Approved	Effect of changes
	IFRS 16		
	Balance at	Balance at	
	01-01-2019	31-12-2018	
EQUITY AND LIABILITIES			
Total equity	146,242	146,242	0
Long-term loans and bank credits and other financing sources	0	14,781	-14,781
Long-term loans and bank credits	0	0	0
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 and other financing sources	0	12,963	-12,963
Short-term loans and bank credits	0	0	0
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 at least 12 months after the end of the reporting period. The most important factor influencing the Company's ability to continue in operational existence is the financial condition. The key factors with an impact on the Company's ability to continue its operations include liquidity, proper backlog and market situation.

In 2019, the Company recognised the sales revenue of PLN 935m (a year-on-year increase by 22%) and the gross profit of PLN 23m. At 31 December 2019, the Company presented the current assets of PLN 342m, including the cash of PLN 28m. At the date of preparation of the financial statements, ZUE had the backlog worth approx. PLN 1,893m and was in the process of winning new contracts.

Accordingly, the Management Board of ZUE state that there are no significant going concern risks at the date of preparation of this report 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

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

Following the implementation of IFRS 16, in these financial statements and the comparative information, the Company presented the item named "Lease liabilities" and disclosed the following items in equity and liabilities:

- "Long-term lease liabilities;"
- "Short-term lease liabilities."

Previously the Company recognised liabilities relating to the financing of property, plant and equipment and finance lease liabilities in the item named "Loans and bank credits and other financing sources." Since 2019, the Company has also recognised right-of-use liabilities in the newly created item.

To make the financial statements and comparative information clearer, the Company separated "Advance payments" from "Trade and other receivables" and presented them as a separate item.

In addition, the Company separated "Accruals" and "Advance payments" from "Trade and other payables" and presented them as separate items.

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

	Restated	Approved	
	Balance at	Balance at	Effect of
	31-12-2018	31-12-2018	changes
ASSETS			
Non-current assets			
Total non-current assets	181,913	181,913	0
Current assets			
Trade and other receivables	171,503	188,084	-16,581
Advance payments	16,581	0	16,581

Total current assets	414,705	414,705	0
Total assets	596,618	596,618	0
EQUITY AND LIABILITIES			
Equity			
Total equity	146,242	146,242	0
Non-current liabilities			
Long-term loans and bank credits and other financing sources	0	14,781	-14,781
Long-term loans and bank credits	0	0	0
Long-term lease liabilities	14,781	0	14,781
Total non-current liabilities	34,480	34,480	0
Current liabilities			
Trade and other payables	205,856	335,883	-130,027
Accruals	55,020	0	55,020
Advance payments	75,007	0	75,007
Short-term loans and bank credits and other financing sources	0	12,963	-12,963
Short-term loans and bank credits	0	0	0
Short-term lease liabilities	12,963	0	12,963
Total current liabilities	415,896	415,896	0
Total liabilities	450,376	450,376	0
Total equity and liabilities	596,618	596,618	0

The following separate items have been presented by the Company in connection with the recognition of additional items and the Company's intention to make the statement of cash flows clearer:

- Change in measurement of construction contracts
- Change in accruals
- Change in advance payments

The table below presents the influence of changes on the statement of cash flows:

	Restated	Approved	
	12 months ended	12 months ended	Effect of changes
	31-12-2018	31-12-2018	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) before tax	-78,714	-78,714	0
Operating profit (loss) before changes in working capital	-67,445	-67,445	0
Change in receivables, measurement of contracts and retentions on construction contracts	0	-118,936	118,936
Change in receivables and retentions on construction contracts	-76,041	0	-76,041
Change in payables, measurement of contracts and retentions on construction contracts, excluding loans and bank credits and other financing sources	0	142,778	-142,778
Change in payables and retentions on construction contracts	110,315	0	110,315
Change in measurement of construction contracts	-31,371	0	-31,371
Change in accruals	26,076	0	26,076

Change in advance payments	-5,137	0	-5,137
Change in other assets	147	147	0
NET CASH FROM OPERATING ACTIVITIES	-21,487	-21,487	0
CASH FLOWS FROM INVESTING ACTIVITIES			
NET CASH FROM INVESTING ACTIVITIES	-17,668	-17,668	0
CASH FLOWS FROM FINANCING ACTIVITIES			
NET CASH FLOWS FROM FINANCING ACTIVITIES	2,384	2,384	0
TOTAL NET CASH FLOWS	-36,771	-36,771	0
Net foreign exchange gains / (losses)	31	31	0
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	116,144	116,144	0
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:	79,404	79,404	0
- of limited availability	0	0	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 financial statements of the Company for the financial year ended 31 December 2018, except for the new or amended standards and interpretations effective for annual periods beginning on or after 1 January 2019, 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 8.12 and identifies one aggregate reporting segment, namely construction activity.

The Company is organised and managed within the abovementioned segment.

Accordingly, the Management Board monitor the segment operating and financial results at the Company.

8.2.5. Recognition of revenue from long-term construction contracts

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 has used an input method in compliance with a modified retrospective approach.

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

Input method

Input method uses expenditures (costs) incurred by the Company relative to total expected expenditures (costs) to measure 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 toward completion measurement methods

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

Contract measurement stages:

- a) Determining of a change in contract status – contracts in progress and completed contracts;
- b) Determining of adjustments to the planned revenue;
- c) Revenue budget updates (twice a year);
- d) Cost budget updates (twice a year);
- e) Determining the amount of invoiced revenue;
- f) Determining the amount of direct and indirect costs relating to the performance of construction works;
- g) Determining the amount 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 an 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 (expenses) 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:

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

Freehold land is not depreciated.

According to the principle of prudence, low-value non-current assets are carried on a one-off basis to profit or loss in the period in which the expense was incurred. Prudence is analysed in terms of accumulated value of low-value non-current assets.

Non-current assets and non-current assets under construction are tested for impairment if there are indications of impairment at least at the end of each reporting period. Rules governing the determining of impairment are set out in note 8.2.13. Effects of the impairment of non-current assets and non-current assets under construction are recognised in other operating expenses.

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 part of an item of property, plant and equipment with a purchase price or production cost that is significant in relation to the total price or cost of the 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.

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; and
- It is unlikely that plan will be significantly changed.

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

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

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

8.2.15. 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 included in financial expenses is recognised up to the amount of these expenses as financial income.

8.2.16. Leases – accounting policy applied since 1 January 2019

IFRS 16 introduces a single lessee accounting model by eliminating the classification of leases as either operating leases or finance leases. As such, the lessee is required to recognise a right-of-use asset and a lease liability, unless the lease term is short (up to 12 months) or the underlying asset is of low value.

The lessee is also required to recognise the depreciation of a right-of-use asset and interest on lease liability in profit and loss account (according to IAS 17, expenditures relating to the use of leased assets were recognised in general administrative expenses). Right-of-use assets are depreciated on a straight-line basis and lease liabilities are measured at amortised cost.

The change of the definition of a lease mainly related 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 used 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.

Right-of-use assets are initially measured by the Company at cost which includes:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement of the lease (less any lease incentives received);
- any initial direct costs incurred by the Company;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

If the lessee applies the fair value model, price or cost model in IAS 40 Investment property to its investment property then the same model should be applied to right-of-use assets (the land) which meet the definition of investment property contained in IAS 40.

After initial recognition, a right-of-use asset is measured by the Company at cost less depreciation (on a straight line basis) and impairment losses, adjusted for any remeasurement of the lease liability.

Lease liabilities are measured by the Company at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if the rate can be readily determined. If the rate cannot be readily determined, the Company's incremental borrowing rate can be used. The

rate is defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- a) Fixed lease payments (including in-substance fixed lease payments), less any lease incentives receivable;
- b) Variable lease payments that depend on an index or a rate initially measured with the index or the rate at the commencement date;
- c) Amounts expected to be payable by the lessee under residual value guarantees;
- d) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the lease liability is measured by:

- f) Increasing the carrying amount to reflect interest on the lease liability;
- g) Reducing the carrying amount to reflect the lease payments made; and
- h) Remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

After initial recognition, a lease liability is measured by the Company at amortised cost.

Remeasurement of lease liability is recognised by the Company as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognises any remaining amount as profit or loss.

The amount of incremental borrowing rate for leases is remeasured by the Company annually.

The Company applies the same discount rates to the portfolio of leased cars and rentals. The Company applies a separate discount rate to the leasehold land.

In the case of short-term leases and leases of low-value assets, lease payments are recognised by the Company as an expense on a straight-line basis over the lease term.

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>
Land and buildings	1 - 5 years
Plant and equipment	10 - 25 years
Vehicles	1 - 25 years
Leasehold land	30 - 89 years

The lease information is presented by the Company in the note 6.2. Leases.

The disclosure requirements set out in IAS 40 apply to the leasehold land which meets the definition of investment property.

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 of inventories resulting from prudent valuation and write-downs of items in excess of anticipated demand are recognised as an expense of the period and the reversal of write-downs is recognised as a decrease in the expense of the period.

8.2.18. Trade and trade 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 classified by the Company in the following manner:

- a) Trade receivables;
- b) Receivables from the state budget other than corporate income tax;
- c) 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 bank deposits recognised in the balance sheet include cash at bank and in hand and short-term bank deposits which have a maturity of three months or less.

8.2.20. Trade and other non-financial payables

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

Trade and other payables are classified by the Company in the following manner:

- a) Trade payables;
- b) Liabilities to the state budget other than corporate income tax;
- c) 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, contributions to the Employees Capital Pension Scheme, etc.

Other non-financial liabilities include, in particular, liabilities to revenue office relating to VAT. Other non-financial liabilities are recognised at an amount due.

8.2.21. Accruals

Accruals include provisions for the costs of contracts.

In the course of performance of construction contracts, the Company enters into agreements with subcontractors whereby the works performed by subcontractors are accepted at later dates. Accordingly, there may be the works of significant value already performed at the end of the reporting period for which no invoice has been issued to

the Company. In such cases, the Company recognises accruals relating to the works uninvoiced by the subcontractors.

Provisions for the works performed by subcontractors are charged to contract costs. Provisions are created at the Company with a breakdown into particular contracts.

After it has been used, the provision is released by reducing the cost of sales.

8.2.22. Advance payments

There are the following types of advance payments at the Company: Advance payments made/received in connection with performed contracts and Other advance payments.

The Company presents the advance payments transferred to counterparties in the Advance payments item excluding Advance payments for the purchase of property, plant and equipment, investment property and intangible assets which are presented according to the nature of the assets they relate to.

The amounts transferred to subcontractors to ensure the timely performance of construction contracts are presented in the item of Advance payments made in connection with performed contracts.

The item of Advance payments received in connection with performed contracts presents the obligation under the contracts in respect of which the advance payment has been made and the remuneration has been paid in advance for the construction works which have not yet been performed by the Company. Advance payments for performed contracts are settled during the contract performance as part of the ordinary course of the Company's operations.

8.2.23. 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 items are included by the Company into the category of 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 measures 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 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.

8.2.24. 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 Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it is a part of a contract containing one or more embedded derivatives and under 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 in financial liabilities measured at fair value through profit or loss.

The following items are included by the Company into the category of financial liabilities measured at amortised cost:

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

8.2.25. 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. Sources of estimation uncertainty

The preparation of financial statements in conformity with the IFRS requires the Management Board 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
2. Useful economic lives of non-current assets
3. Loss allowances for receivables
4. Provisions
5. Measurement of long-term construction contracts
6. Deferred income tax
7. Contingent assets and contingent liabilities
8. Uncertainty over tax settlements

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 influence on the 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

Items 8.2.10 and 8.2.12 discuss the expected periods of review and useful economic lives of property, plant and equipment and intangible assets at the end of each annual reporting period.

Depreciation and amortisation rates are determined on the basis of the expected useful economic lives of property, plant and equipment and intangible assets. The Group verifies the adopted 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, 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 consolidated financial statements of the Company, 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 substance 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 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. In the reporting period, the ratio of provisions to revenue under the 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 the 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 loss on contracts

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

A loss provision is created to bring profit or loss to the amount of a 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 the forecasts for subsequent years.

8.3.7. Contingent assets and contingent liabilities

Contingent assets are not recognised in financial statements since this may lead to 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.

9. Events after the end of the reporting period

On 28 January 2020, the Company and BNP Paribas Bank Polska S.A. (the "Bank") signed a number of annexes to the financing agreement. The Company informed about the said financing agreement in the current report 72/2017 and subsequent current reports. Under the annexes, the limit granted to the Company was set as PLN 100m. At the Company's request, the Bank would provide the bank guarantees of any type (including, in particular, bid bonds, performance bonds and advance payment bonds). In addition, the term of the limit was extended by 12 months of the annexes conclusion date. **(Current report 1/2020)**

On 31 January 2020, the Company and Strabag sp. z o.o. (Strabag) signed the contract whereby the Company would perform construction works and subcontracting services consisting in the comprehensive completion of the works relating to the reconstruction of OCL network in connection with the following project carried out by Strabag for PKP PLK S.A.: "Modernisation of track systems and the associated infrastructure on the railway line E59 of the Dobiegniew – Słonice section, between 105.820 km and 128.680 km" as part of the project named: "Works on the railway line E59 of the Wronki – Słonice section." The contract net value: PLN 44.9m. Completion of the tasks under the contract: April 2022. **(Current report 3/2020)**

On 5 February 2020, the Company published preliminary financial results for 2019. **(Current report 4/2020)**

On 12 February 2020, an annex was signed to the contract with Kolejowe Zakłady Automatyki S.A. The Company informed about the conclusion of the contract in the current report 61/2017 and the current report 33/2019. The contract net value increased by the net amount of approx. PLN 6.2m and the contract would be completed until the end of July 2020. **(Current report 5/2020)**

Following the receipt by the Company on 13 February 2020 of the signed contract between the Company and PKP Polskie Linie Kolejowe S.A. (PKP PLK) for the following task: "Provision of design services and completion of additional railway traffic control works in connection with the project no. 1: "Works on the Chabówka - Zakopane railway line no. 99" carried out as part of the following project: "Works on the railway lines no. 97, 98 and 99 of the Skawina – Sucha Beskidzka – Chabówka – Zakopane section" (the "Contract"), the total net value of the contracts between PKP PLK and the companies within the ZUE Group concluded since 18 September 2019 amounted to approx. PLN 17.8m. The cooperation between the Company and PKP PLK included, in particular, the abovementioned Contract of the net value of approx. PLN 12m (gross value of PLN 14.8m). The Contract completion date was set as the end of August 2021. **(Current report 6/2020)**

On 14 February 2020, the Company learnt about the selection of the tender submitted by the consortium of: 1. ZUE (Leader), 2. FDO sp. z o.o. (Partner) as the most economically advantageous offer in the tender procedure for the project named: "Reconstruction of the road and the track in the Chrobrego Street and the Mieszka I Street as part of the project named: "The system of sustainable urban transport in Gorzów Wlkp." The Company informed about the submission of the most economically advantageous tender in the current report 41/2019. Net value of the tender submitted by the Consortium: PLN 56.1m out of which 95% is attributable to the Company. Gross value of the tender: PLN 69.0m. Project completion date: 18 months of the contract conclusion date. **(Current report 7/2020)**

10. Approval of the financial statements

The financial statements were approved by the Management Board on 16 March 2020.

