



**ZUE Capital Group**

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**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

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

Cracow, 24 March 2021

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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.
BPK Poznań	Parent company of the ZUE Capital Group. 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.
RTI	Subsidiary of ZUE. 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.
RTI Germany	Subsidiary of ZUE. 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.
ZUE Group, Group, Capital Group	Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow. 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 2020, item 1526).

Share capital details as at 31 December 2020.

## Selected financial data of the Capital Group

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

	Balance at 31-12-2020		Balance at 31-12-2019	
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	168,539	36,521	182,336	42,817
Current assets	353,094	76,513	372,301	87,425
Assets held for sale	3,340	724	0	0
<b>Total assets</b>	<b>524,973</b>	<b>113,758</b>	<b>554,637</b>	<b>130,242</b>
Equity	154,649	33,512	150,441	35,327
Non-current liabilities	52,276	11,328	53,318	12,520
Current liabilities	318,048	68,918	350,878	82,395
<b>Total equity and liabilities</b>	<b>524,973</b>	<b>113,758</b>	<b>554,637</b>	<b>130,242</b>

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

	Period ended 31-12-2020		Period ended 31-12-2019	
	PLN '000	EUR '000	PLN '000	EUR '000
Sales revenue	901,358	201,457	996,215	231,581
Cost of sales	870,040	194,457	968,268	225,084
<b>Gross profit (loss) on sales</b>	<b>31,318</b>	<b>7,000</b>	<b>27,947</b>	<b>6,497</b>
Operating profit (loss)	10,620	2,374	7,870	1,829
Gross profit (loss)	10,011	2,237	6,753	1,570
<b>Net profit (loss) from continuing operations</b>	<b>4,265</b>	<b>953</b>	<b>3,777</b>	<b>878</b>
Total comprehensive income	4,208	941	3,691	858

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

	Period ended 31-12-2020		Period ended 31-12-2019	
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	16,314	3,646	-53,530	-12,444
Cash flows from investing activities	-6,051	-1,352	-2,245	-522
Cash flows from financing activities	-17,160	-3,835	4,432	1,030
<b>Total net cash flows</b>	<b>-6,897</b>	<b>-1,541</b>	<b>-51,343</b>	<b>-11,936</b>
Cash at the beginning of the period	30,378	7,133	81,723	19,005
Cash at the end of the period	23,487	5,089	30,378	7,133

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

<b>Item</b>	<b>Exchange rate</b>	<b>Exchange rate on 31-12-2020</b>	<b>Exchange rate on 31-12-2019</b>	<b>Exchange rate on 31-12-2018</b>
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.6148	4.2585	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	4.4742	4.3018	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	4.6148	4.2585	4.3000

## Consolidated statement of comprehensive income

Continuing operations	Note no.	12 months ended 31-12-2020	12 months ended 31-12-2019
Sales revenue	2.1.	901,358	996,215
Cost of sales	2.2.	870,040	968,268
<b>Gross profit (loss) on sales</b>		<b>31,318</b>	<b>27,947</b>
General and administrative expenses	2.2.	23,405	21,173
Other operating income	2.3.	4,624	1,938
Other operating expenses	2.4.	1,917	842
<b>Operating profit (loss)</b>		<b>10,620</b>	<b>7,870</b>
Financial income	2.5.	1,383	1,227
Financial expenses	2.6.	1,992	2,344
<b>Pre-tax profit (loss)</b>		<b>10,011</b>	<b>6,753</b>
Corporate income tax	2.7.	5,746	2,976
<b>Net profit (loss) from continuing operations</b>		<b>4,265</b>	<b>3,777</b>
<b>Net profit (loss)</b>		<b>4,265</b>	<b>3,777</b>
<b>Other net comprehensive income</b>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>		<b>-57</b>	<b>-86</b>
Actuarial gains (losses) relating to specific benefit schemes	2.8.	-57	-86
<b>Total other net comprehensive income</b>		<b>-57</b>	<b>-86</b>
<b>Total comprehensive income</b>		<b>4,208</b>	<b>3,691</b>
Number of shares		23,030,083	23,030,083
<b>Consolidated net profit attributable to:</b>			
Shareholders of the Parent Company		4,260	3,753
Non-controlling interests		5	24



Net profit (loss) per share (PLN) attributable to shareholders of the Parent Company (basic and diluted)	5.2.	0.19	0.16
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Parent Company		4,203	3,667
Non-controlling interests		5	24
Total comprehensive income per share (PLN)	5.2.	0.18	0.16

## Consolidated statement of financial position

	Nota no.	Balance at 31-12-2020	Balance at 31-12-2019
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7.1.	63,601	56,525
Investment property	7.2.	6,497	5,877
Intangible assets	7.3.	2,073	1,521
Right-of-use assets	7.4.	41,900	57,092
Goodwill	7.6.	31,172	31,172
Retentions on construction contracts	3.2.	8,515	9,758
Deferred tax assets	2.7.	14,557	20,202
Other assets	7.9.	224	189
<b>Total non-current assets</b>		<b>168,539</b>	<b>182,336</b>
<b>Current assets</b>			
Inventories	7.11.	25,306	30,353
Trade and other receivables	4.1.	149,222	185,772
Measurement of long-term construction contracts	3.1.	146,929	111,893
Retentions on construction contracts	3.2.	4,371	3,057
Advance payments	3.4.	3,123	9,722
Current tax assets	2.7.	0	0
Advanced loans	7.10.	10	0
Other assets	7.9.	646	1,126
Cash and cash equivalents	6.5.	23,487	30,378
<b>Current assets</b>		<b>353,094</b>	<b>372,301</b>
<b>Assets held for sale</b>	7.5.	<b>3,340</b>	<b>0</b>

<b>Total current assets</b>		<b>356,434</b>	<b>372,301</b>
<b>Total assets</b>		<b>524,973</b>	<b>554,637</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	5.1.	5,758	5,758
Share premium account	5.3.	93,837	93,837
Treasury shares	5.4.	-2,690	-2,690
Retained earnings	5.5.	57,589	53,386
<b>Total equity attributable to shareholders of the parent company</b>		<b>154,494</b>	<b>150,291</b>
Equity attributable to non-controlling interests		155	150
<b>Total equity</b>		<b>154,649</b>	<b>150,441</b>
<b>Non-current liabilities</b>			
Long-term loans and bank credits	6.1.	4,443	13,333
Long-term lease liabilities	6.2.	12,386	12,450
Retentions on construction contracts	3.2.	18,821	12,946
Liabilities under employee benefits	7.13.	1,411	2,092
Deferred tax liabilities	2.7.	129	48
Long-term provisions	3.3.	15,086	12,449
<b>Total non-current liabilities</b>		<b>52,276</b>	<b>53,318</b>
<b>Current liabilities</b>			
Trade and other payables	4.2.	135,073	165,631
Accruals	3.5.	65,617	61,422
Measurement of long-term construction contracts	3.1.	3,659	4,584
Retentions on construction contracts	3.2.	19,393	19,807
Advance payments	3.4.	28,841	27,890
Short-term loans and bank credits	6.1.	13,108	15,983
Short-term lease liabilities	6.2.	9,130	10,016
Other financial liabilities	7.12.	36	106
Liabilities under employee benefits	7.13.	33,313	29,497
Current tax liabilities	2.7.	5	0
Short-term provisions	3.3.	9,873	15,942
<b>Total current liabilities</b>		<b>318,048</b>	<b>350,878</b>
<b>Total liabilities</b>		<b>370,324</b>	<b>404,196</b>

Total equity and liabilities

524,973

554,637

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## Consolidated statement of changes in equity

### Equity attributable to shareholders of the Group

		Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the parent	Equity attributable to non-controlling interests	Total equity
<b>Balance at</b>	<b>1 January 2020</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>53,386</b>	<b>150,291</b>	<b>150</b>	<b>150,441</b>
Change of interest in subsidiaries		0	0	0	0	0	0	0
Payment of dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	4,260	4,260	5	4,265
Other net comprehensive income		0	0	0	-57	-57	0	-57
Other		0	0	0	0	0	0	0
<b>Balance at</b>	<b>31 December 2020</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>57,589</b>	<b>154,494</b>	<b>155</b>	<b>154,649</b>
<b>Balance at</b>	<b>1 January 2019</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>49,717</b>	<b>146,622</b>	<b>126</b>	<b>146,748</b>
Change of interest in subsidiaries		0	0	0	0	0	0	0
Payment of dividend		0	0	0	0	0	0	0
Issue of shares		0	0	0	0	0	0	0
Issue costs		0	0	0	0	0	0	0

		0	0	0	0	0	0	0
Buy-back of shares		0	0	0	0	0	0	0
Profit (loss)		0	0	0	3,753	3,753	24	3,777
Other net comprehensive income		0	0	0	-86	-86	0	-86
Other		0	0	0	2	2	0	2
<b>Balance at</b>	<b>31 December 2019</b>	<b>5,758</b>	<b>93,837</b>	<b>-2,690</b>	<b>53,386</b>	<b>150,291</b>	<b>150</b>	<b>150,441</b>

## Consolidated statement of cash flows

	12 months ended 31-12-2020	12 months ended 31-12-2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit / (loss) before tax</b>	<b>10,011</b>	<b>6,753</b>
<b>Adjustments for:</b>		
Depreciation and amortisation	13,306	13,170
Foreign exchange gains / (losses)	-6	2
Interest and share in profit (dividends)	1,585	1,617
Gain / (loss) on disposal of investments	-1,530	-105
<b>Operating profit (loss) before changes in working capital</b>	<b>23,366</b>	<b>21,437</b>
Change in receivables and retentions on construction contracts	36,542	-6,323
Change in inventories	5,047	18,367
Change in provisions and liabilities under employee benefits	-346	-3,502
Change in payables and retentions on construction contracts	-24,557	-41,189
Change in measurement of construction contracts	-35,961	554
Change in accruals	4,195	-1,006
Change in advance payments	7,550	-41,565
Change in other assets	480	-86
Change in funds of limited availability	0	17
Income tax paid / (tax refund)	-2	-234
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>16,314</b>	<b>-53,530</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of property, plant and equipment and intangible assets	1,394	240
Purchase of property, plant and equipment and intangible assets	-7,370	-5,357
Sale / (purchase) of financial assets in related parties	0	-35
Advanced loans	-90	-17
Repayment of advanced loans	0	2,721
Interest received	15	203
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>-6,051</b>	<b>-2,245</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Loans and bank credits received	20,303	62,124
Repayment of loans and bank credits	-23,592	-40,797
Decrease in lease liabilities	-12,352	-15,552
Lease interest paid	-726	-875
Other interest paid	-793	-468

**NET CASH FLOWS FROM FINANCING ACTIVITIES**

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<b>-17,160</b>	<b>4,432</b>
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**TOTAL NET CASH FLOWS**

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<b>-6,897</b>	<b>-51,343</b>
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Net foreign exchange gains / (losses)

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6	-2
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**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD**

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<b>30,378</b>	<b>81,723</b>
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**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:**

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<b>23,487</b>	<b>30,378</b>
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- of limited availability

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3,759	29
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# Notes to the consolidated financial statements as at 31 December 2020

## 1. General information

### 1.1. Governing bodies of the Parent Company

The composition of the Company's Management Board did not change during the reporting period or by the date of preparation of these consolidated financial statements.

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

#### Management Board:

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

#### Supervisory Board:

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

#### Audit Committee:

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

Mr. Mariusz Szubra and Mr. Piotr Korzeniowski meet the independence criteria referred to in the Act on Auditors, Audit Firms and Public Supervision (Uniform text, Journal of Laws of 2020, item 1415).



## 1.2. Shareholders of the Parent Company

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

Shareholder	Number of votes/shares at 24 March 2021	% of the share capital / total number of votes	Number of shares/votes on the date of publication of the last interim report <sup>(1)</sup>	% of the share capital / total number of votes
<b>Wiesław Nowak</b>	<b>14,400,320</b>	<b>62.53%</b>	<b>14,400,320</b>	<b>62.53%</b>
MetLife OFE	1,460,000 <sup>(2)</sup>	6.34%	1,400,000	6.08%
PKO Bankowy OFE	1,778,681 <sup>(3)</sup>	7.72%	1,500,000	6.51%
Other	5,391,082 <sup>(4)</sup>	23.41%	5,729,763	24.88%
<b>Total</b>	<b>23,030,083</b>	<b>100</b>	<b>23,030,083</b>	<b>100</b>

(1) Publication of the last interim report (Consolidated report of the Group for the three quarters of 2020): 18 November 2020.

(2) Shareholding on the basis of information provided by the Central Securities Depository of Poland for the purposes of the Ordinary General Meeting of ZUE held on 30 July 2020. According to the Company's best knowledge, the information is valid as the date of publication of this report.

(3) Shareholding on the basis of information provided by the Central Securities Depository of Poland for the purposes of the Ordinary General Meeting of ZUE held on 30 July 2020. According to the Company's best knowledge, the information is valid as the date of publication of this report.

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

## 1.3. Composition of the Capital Group

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

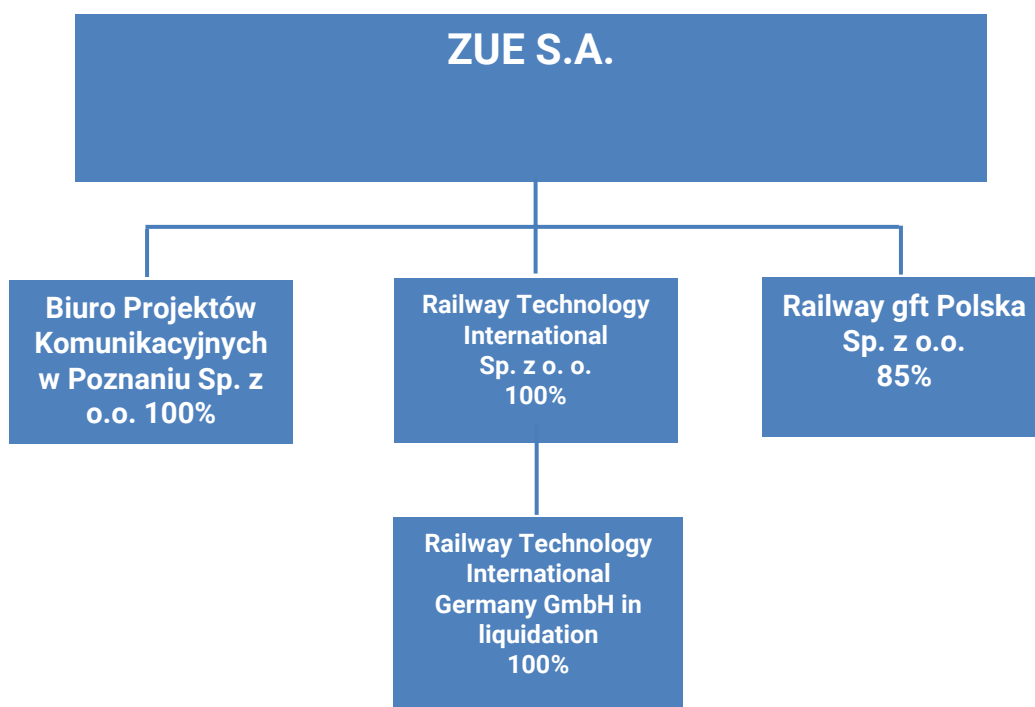
ZUE Spółka Akcyjna with registered office in Cracow (the Kazimierza Czapińskiego Street no. 3) is the parent company of the Capital Group.

The Company name did not change in the reporting period.

The Company has been incorporated on 20 May 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 of the National Court Register under entry no. KRS 0000135388.

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

Structure of the Capital Group at the date of approval of the consolidated financial statements:



**Subsidiary – Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.** has been established on 15 June 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 on 21 October 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 on 20 July 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 on 8 May 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 all the subordinates have been prepared for the same reporting period as the Parent Company using consistent accounting policies. The Parent Company and the companies within the Group use a calendar year as their financial year.

## 1.4. Consolidated companies

Consolidated companies at 31 December 2020:

Company name	Registered office	Shares as at		Consolidation method
		31 December 2020	31 December 2019	
ZUE S.A.	Cracow	Parent Company	Parent Company	
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	85%	85%	Full

ZUE has the power to govern financial and operating policies of BPK Poznań and Railway gft because at 31 December 2020, it held a 100% and 85% interest, respectively, in these companies.

At 31 December 2020, ZUE held 100% of shares in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH in liquidation. Given an insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, Railway Technology International Germany GmbH in liquidation was not consolidated.

## 1.5. Changes to the Group's structure in 2020 and their consequences

No changes to the Group's structure occurred between the beginning of 2020 and the date of approval of these financial statements.

On 13 February 2020, an entry about the opening of liquidation proceedings relating to RTI Germany was made in the District Court of Dresden.

## 1.6. Activities of the Capital Group

The Group operates in the three aggregate operating segments:

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

**Construction** activities include:

- **Urban infrastructure**, including:
  - Construction and upgrade of tram tracks, tram and trolleybus traction networks, traction substations, street lighting, cable lines, street traffic signalling, road systems, buildings and telecommunications technology;
  - Maintenance of tram and street lighting infrastructure.
- **Rail infrastructure**, including:

- Construction and upgrade of railway tracks, railway traction, railway traffic control devices and telecommunications technology, traction substations, power lines, stations and civil structures.

In 2020, the Group focused on the provision of rail and urban infrastructure construction services.

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.

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

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

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

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

## 1.7. Functional and reporting currency

These financial statements have been prepared in Polish zlotys (PLN). Polish złoty is the Group'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 31-12-2020	Period ended 31-12-2019
Revenue from construction contracts	835,543	921,713
Revenue from the provision of services	15,065	18,139
Revenue from the sale of goods, raw and other materials	50,750	56,363
<b>Total</b>	<b>901,358</b>	<b>996,215</b>

Revenue from construction and design activity is recognised by the Group under revenue from construction contracts. The revenue is earned under the contracts accounted for on the basis of consumed time and expenditures. The services provided under construction contracts are delivered directly to customers as the works are progressing.

The Group's sales revenue between 1 January and 31 December 2020 amounted to PLN 901,358 thousand and decreased by 10% compared to the revenue reported in the analogous period of 2019. The decrease was caused by the completion of subsequent stages of contracts. In the reporting period, a share of the supply of materials in sales revenue decreased as a consequence of contractual clauses whereby contractors were obliged to sell the materials in advance. The materials supplied in previous years were used in 2020 in building processes as a result of which the reporting period saw an increase in expenses associated with the services provided by contractors.

In 2020, the Group provided services in the territory of Poland. In addition, the Group generated the revenue of PLN 494 thousand from the sale of materials to Russia and Germany.

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

	Period ended	
	31-12-2020	31-12-2019
Counterparty A	644,477	608,235
Counterparty B		112,882

## 2.2. Operating expenses

	Period ended 31-12-2020	Period ended 31-12-2019
Change in products	346	-236
Depreciation and amortization	13,306	13,170
Consumption of materials and energy, including:	180,082	268,804
- <i>consumption of materials</i>	173,534	261,297
- <i>consumption of energy</i>	6,548	7,507
Contracted services	514,636	502,816
Costs of employee benefits	119,719	114,737
Taxes and charges	1,759	1,537
Other expenses	18,546	26,319
Value of goods and materials sold	45,051	62,294
<b>Total</b>	<b>893,445</b>	<b>989,441</b>

	Period ended 31-12-2020	Period ended 31-12-2019
Cost of sales	870,040	968,268
General and administrative expenses	23,405	21,173
<b>Total</b>	<b>893,445</b>	<b>989,441</b>

## Depreciation and amortisation

	Period ended 31-12-2020	Period ended 31-12-2019
Depreciation of property, plant and equipment	8,399	8,839
Depreciation of right-of-use assets	4,434	3,829
Amortisation of intangible assets	93	122
Depreciation of investments in real property	380	380
<b>Total</b>	<b>13,306</b>	<b>13,170</b>

## 2.3. Other operating income

	Period ended 31-12-2020	Period ended 31-12-2019
<b>Gain on disposal of assets:</b>	<b>514</b>	<b>105</b>
Gain on disposal of non-current assets	514	105
<b>Other operating income:</b>	<b>4,110</b>	<b>1,833</b>

Damages and penalties	130	711
Release of allowances for receivables	989	684
Release of the company social benefits fund	1,174	0
Refund of the costs of court proceedings	126	119
Substitute performance	181	91
Release of write-downs of inventories	6	80
Release of write-downs of investment property	1,000	0
Grants	380	0
Other	124	148
<b>Total</b>	<b>4,624</b>	<b>1,938</b>

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

The grant is discussed in the note 7.24.

## 2.4. Other operating expenses

	Period ended 31-12-2020	Period ended 31-12-2019
<b>Loss on disposal of assets:</b>	<b>0</b>	<b>0</b>
Loss on disposal of non-current assets	0	0
<b>Other operating expenses:</b>	<b>1,917</b>	<b>842</b>
Donations	6	38
Allowances for receivables	1,062	447
Costs of litigations	603	226
Substitute performance	181	79
Other	65	52
<b>Total</b>	<b>1,917</b>	<b>842</b>

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

## 2.5. Financial income

	Period ended 31-12-2020	Period ended 31-12-2019
<b>Interest income:</b>	<b>467</b>	<b>459</b>
Interest on bank deposits	127	184
Interest on loans	0	33
Interest on receivables	340	242
<b>Other financial income:</b>	<b>916</b>	<b>768</b>
Foreign exchange gains	0	0
Discount of long-term items	895	762
Other	21	6
<b>Total</b>	<b>1,383</b>	<b>1,227</b>

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

## 2.6. Financial expenses

	Period ended 31-12-2020	Period ended 31-12-2019
<b>Interest expenses:</b>	<b>1,581</b>	<b>1,843</b>
Interest on credits	289	382
Interest on loans	508	85
Interest on leases	726	1,127
Interest on liabilities under factoring facility	0	86
Interest on trade and other payables	58	163
<b>Other financial expenses:</b>	<b>411</b>	<b>501</b>
Foreign exchange loss	156	89
Discount of long-term items	158	60
Allowance for investments in related parties	0	35
Expenses associated with factoring costs	0	69
Commission expense	42	200
Other	55	48
<b>Total</b>	<b>1,992</b>	<b>2,344</b>

## 2.7. Corporate income tax

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

	Period ended 31-12-2020	Period ended 31-12-2019
Current income tax	7	234
Deferred tax	5,739	2,742
<b>Total tax expense (income)</b>	<b>5,746</b>	<b>2,976</b>

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

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

### Current income tax

	Period ended 31-12-2020	Period ended 31-12-2019
<b>Gross profit (loss)</b>	<b>10,011</b>	<b>6,753</b>
Difference between gross profit and income tax base:	-12,931	-6,858

- differences between gross profit and taxable income resulting from costs that are not tax-deductible under tax regulations and revenue not classified as revenue under tax regulations and additional costs and revenue

-12,061 -1,881

- other differences (including loss carried forward)

-870 -4,977

**Income/Loss**

**-2,920 -105**

Income tax base

37 0

Income tax at the applicable rate of 19%

7 0

Income tax paid /(tax refund) on income earned abroad

0 0

Tax increases, waivers, exemptions, deductions and reductions

0 0

Income tax adjustments

0 234

**Current income tax**

**7 234**

**Income tax according to effective interest rate**

	Period ended 31-12-2020	Period ended 31-12-2019
<b>Gross profit (loss)</b>	<b>10,011</b>	<b>6,753</b>
Income tax at the applicable rate of 19%	1,902	1,283
<b>Effect of tax recognition of:</b>	<b>-2,491</b>	<b>-1,205</b>
- Use of tax losses carried forward	165	946
- Costs that are not tax-deductible under tax regulations	4,911	3,927
- Revenue not classified as revenue under tax regulations	7,321	-68
- Tax-deductible expenses that are not balance sheet expenses	1,599	4,303
- Taxable revenues other than balance sheet revenues	1,683	49
Revaluation of deferred tax assets (current year loss)	596	-78
Deferred tax	5,739	2,742
Income tax adjustments	0	234
<b>Income tax according to effective tax rate</b>	<b>5,746</b>	<b>2,976</b>
Effective tax rate	57%	44%

**Current tax assets and liabilities**

	Balance at 31-12-2020	Balance at 31-12-2019
<b>Current tax assets</b>		
Tax refundable	0	0
<b>Current tax liabilities</b>		
Tax payable	5	0

**Deferred tax balance**

	Period ended 31-12-2020	Period ended 31-12-2019
<b>Deferred tax balance at the beginning of the period</b>	<b>20,154</b>	<b>22,876</b>
<b>Temporary differences relating to deferred tax assets:</b>	<b>43,328</b>	<b>39,760</b>



Provisions for expenses and accruals	21,613	18,277
Discount of receivables	132	168
Operating lease liabilities	2,155	2,454
Write-downs	1,036	1,327
Bonds and insurances accounted for over time	2,114	2,234
Tax work in progress	15,319	14,184
Measurement of long-term contracts	695	871
Other	264	245
<b>Temporary differences relating to deferred tax liabilities:</b>	<b>41,072</b>	<b>34,497</b>
Measurement of long-term contracts	27,917	21,260
Difference between the carrying and tax amount of property, plant and equipment and intangible assets	12,444	12,630
Discount of payables	705	602
Other	6	5
<b>Unused tax losses and other tax credits carried forward:</b>	<b>12,172</b>	<b>14,891</b>
Tax losses	12,172	14,891
<b>Total temporary differences relating to deferred tax assets:</b>	<b>55,500</b>	<b>54,651</b>
<b>Total temporary differences relating to deferred tax liabilities:</b>	<b>41,072</b>	<b>34,497</b>
<b>Deferred tax balance at the end of the period</b>	<b>14,428</b>	<b>20,154</b>
<b>Change in deferred tax, including:</b>	<b>-5,726</b>	<b>-2,722</b>
- recognised in income	-5,739	-2,742
- recognised in equity	13	20

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

The tax model was developed by the Company in a five-year time horizon to evidence a deferred tax asset. The tax model provides for temporary differences relating to tax and the ability to recognise tax losses in the projected time period with due regard to tax regulations. The tax losses of prior years result from the performance of railway contracts won on the difficult market. They were the low-margin contracts and the reasons for this included unpredictable factors beyond the Company's control such as growing costs of project execution and no real price indexation.

## 2.8. Components of other comprehensive income

Components of other comprehensive income:

	Period ended 31-12-2020	Period ended 31-12-2019
Actuarial gains (losses) relating to specific benefit schemes	70	106
Deferred tax	-13	-20
<b>Amount recognised in other comprehensive income</b>	<b>57</b>	<b>86</b>

## 2.9. Operating segments

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

- Construction;
- Design; and
- Sales.

The segments jointly meet the following rules:

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

The construction activities conducted by ZUE include the construction and comprehensive modernisation of city transport systems, the construction and comprehensive modernisation of railway lines and services relating to power engineering and power electronics and civil structures.

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

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

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

### Operating segments results in 2020:

	Construction	Sales	Design	Exclusions	Total
<b>Sales revenue</b>	<b>849,649</b>	<b>52,395</b>	<b>11,082</b>	<b>-11,768</b>	<b>901,358</b>
including:					
Revenue from external customers	845,183	46,694	9,055	426	901,358
Inter-segment revenues	4,466	5,701	2,027	-12,194	0
including:					
Revenue from construction contracts	829,982	0	11,082	-5,521	835,543
Revenue from the provision of services	15,412	199	0	-546	15,065
Revenue from the sale of goods, raw and other materials	4,255	52,196	0	-5,701	50,750
<b>Gross profit</b>	<b>28,023</b>	<b>2,492</b>	<b>1,081</b>	<b>-278</b>	<b>31,318</b>
Financial income / expenses	253	-640	-251	29	-609
Interest received	34	0	0	-19	15
Interest paid	-1,273	-230	-35	19	-1,519

<b>Pre-tax profit</b>	<b>10,035</b>	<b>2</b>	<b>158</b>	<b>-184</b>	<b>10,011</b>
Corporate income tax	5,673	23	84	-34	5,746
<b>Net profit</b>	<b>4,362</b>	<b>-21</b>	<b>74</b>	<b>-150</b>	<b>4,265</b>
Depreciation and amortisation	13,137	7	184	-22	13,306
Property, plant and equipment	63,380	29	150	42	63,601
Non-current assets	167,782	470	646	-359	168,539
<b>Total assets</b>	<b>503,270</b>	<b>12,637</b>	<b>14,750</b>	<b>-5,684</b>	<b>524,973</b>
<b>Total liabilities</b>	<b>349,674</b>	<b>11,698</b>	<b>14,303</b>	<b>-5,351</b>	<b>370,324</b>

In 2020, the Group carried out the works in the territory of Poland. In addition, the Group earned the revenue of PLN 494 thousand from the sale of materials to Russia and Germany.

## Operating segments results in 2019:

	Construction	Sales	Design	Exclusions	Total
<b>Sales revenue</b>	<b>934,899</b>	<b>64,686</b>	<b>11,949</b>	<b>-15,319</b>	<b>996,215</b>
including:					
Revenue from external customers	934,230	52,582	5,012	4,391	996,215
Inter-segment revenues	669	12,104	6,937	-19,710	0
including:					
Revenue from construction contracts	912,344	0	11,949	-2,580	921,713
Revenue from the provision of services	18,773	1	0	-635	18,139
Revenue from the sale of goods, raw and other materials	3,782	64,685	0	-12,104	56,363
<b>Gross profit</b>	<b>23,074</b>	<b>2,712</b>	<b>1,757</b>	<b>404</b>	<b>27,947</b>
Financial income / expenses	-381	-617	-141	22	-1,117
Interest received	196	133	0	-126	203
Interest paid	-992	-307	-44	0	-1,343
<b>Pre-tax profit</b>	<b>5,920</b>	<b>126</b>	<b>188</b>	<b>519</b>	<b>6,753</b>
Corporate income tax	2,785	45	48	98	2,976
<b>Net profit</b>	<b>3,135</b>	<b>81</b>	<b>140</b>	<b>421</b>	<b>3,777</b>
Depreciation and amortisation	13,011	9	166	-16	13,170
Property, plant and equipment	53,695	4	229	2,597	56,525
Non-current assets	181,634	434	1,193	-925	182,336
<b>Total assets</b>	<b>523,331</b>	<b>17,530</b>	<b>18,010</b>	<b>-4,234</b>	<b>554,637</b>
<b>Total liabilities</b>	<b>374,040</b>	<b>16,569</b>	<b>17,636</b>	<b>-4,049</b>	<b>404,196</b>

In 2019, the Group carried out the works in the territory of Poland. In addition, the Group earned the revenue of PLN 1,168 thousand from the sale of materials to Russia and Germany.

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

#### 3.1. Construction contracts

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

##### Selected balance sheet data

	Period ended 31-12-2020	Period ended 31-12-2019
Revenue from long-term construction contracts	793,184	887,542
Costs of long-term construction contracts*)	784,518	878,893
<b>Gross profit (loss) on long-term contracts</b>	<b>8,666</b>	<b>8,649</b>

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

	Balance at 31-12-2020	Balance at 31-12-2019
<b>Assets (selected items)</b>	<b>162,938</b>	<b>134,472</b>
- Measurement of long-term construction contracts	146,929	111,893
- Advance payments made in connection with performed contracts	3,123	9,764
- Retentions on construction contracts retained by customers	12,886	12,815
<b>Liabilities (selected items)</b>	<b>159,805</b>	<b>154,363</b>
- Measurement of long-term construction contracts	3,659	4,584
- Provisions for contract costs	64,169	60,755
- Advance payments received in connection with performed contracts	28,841	27,887
- Retentions on construction contracts retained for suppliers	38,214	32,753
- Provisions for warranty claims	16,850	14,191
- Provisions for expected losses on contracts	8,072	14,193

Pursuant to the Group's policy, construction contracts include construction and design activities.

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

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

The provisions for contract costs increased mainly after subcontractors had become more involved in the performance of contracts.

#### 3.2. Retentions on construction contracts

	Balance at 31-12-2020	Balance at 31-12-2019
Retained by customers – to be repaid after 12 months	8,515	9,758
Retained by customers – to be repaid within 12 months	4,371	3,057

<b>Total retentions on construction contracts retained by customers</b>	<b>12,886</b>	<b>12,815</b>
Retained for suppliers – to be repaid after 12 months	18,821	12,946
Retained for suppliers – to be repaid within 12 months	19,393	19,807
<b>Total retentions on construction contracts retained for suppliers</b>	<b>38,214</b>	<b>32,753</b>

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

#### Discount of long-term retentions

	<b>Balance at 31-12-2020</b>	<b>Balance at 31-12-2019</b>
Discount of long-term retentions on construction contracts retained by customers	683	872
Discount of long-term retentions on construction contracts retained for suppliers	1,983	1,501
	<b>Period ended 31-12-2020</b>	<b>Period ended 31-12-2019</b>
Financial income on the discount of retentions	671	512
Financial expenses on the discount of retentions	0	18
Deferred tax	127	94
<b>Net effect on the statement of comprehensive income</b>	<b>544</b>	<b>400</b>

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

	<b>Balance at 31-12-2020</b>	<b>Balance at 31-12-2019</b>
Past due retentions on construction contracts:		
– up to 1 month	0	3
– 1 - 3 months	0	0
– 3 - 6 months	0	0
– 6 months - 1 year	0	0
– over 1 year	11	11
<b>Total past due retentions on construction contracts (gross)</b>	<b>11</b>	<b>14</b>
Write-downs	-11	-11
<b>Total past due retentions on construction contracts (net)</b>	<b>0</b>	<b>3</b>

#### Discount rate

The effective interest rate in 2020 and 2019 used for the discounting of retentions was 2.1%.

### 3.3. Provisions

<b>Provisions</b>	<b>01-01- 2020</b>	<b>Created</b>	<b>Used</b>	<b>Released</b>	<b>Reclassified</b>	<b>31-12- 2020</b>	<b>Item</b>
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<b>Long-term provisions:</b>	<b>14,541</b>	<b>4,200</b>	<b>272</b>	<b>877</b>	<b>-1,095</b>	<b>16,497</b>	
Provisions for employee benefits	2,092	196	0	877	0	1,411	Liabilities under employee benefits (long-term)
Provisions for warranty claims	12,449	4,004	272	0	-1,095	15,086	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
<b>Short-term provisions:</b>	<b>35,539</b>	<b>29,519</b>	<b>17,390</b>	<b>16,177</b>	<b>1,095</b>	<b>32,586</b>	
Provisions for employee benefits	19,597	22,425	17,275	2,034	0	22,713	Liabilities under employee benefits (short-term)
Provisions for warranty claims	1,742	55	103	1,025	1,095	1,764	Short-term provisions
Provision for loss on contracts	14,193	6,997	0	13,118	0	8,072	Short-term provisions
Other provisions	7	42	12	0	0	37	Short-term provisions
<b>Total provisions:</b>	<b>50,080</b>	<b>33,719</b>	<b>17,662</b>	<b>17,054</b>	<b>0</b>	<b>49,083</b>	

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

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

A provision for a loss on contracts is made 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 under 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.

Pursuant to the Agreement with trade organisations at a subsidiary, the liability under the company social benefits fund was remitted. The company was obliged to make annual contributions to the fund.

### Comparative information:

Provisions	01-01-2019	Created	Used	Released	Reclassified	31-12-2019	Item
<b>Long-term provisions:</b>	<b>10,146</b>	<b>5,816</b>	<b>357</b>	<b>2</b>	<b>-1,062</b>	<b>14,541</b>	
Provisions for employee benefits	1,994	217	0	2	-117	2,092	Liabilities under employee benefits (long-term)
Provisions for warranty claims	8,152	5,599	357	0	-945	12,449	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
<b>Short-term provisions:</b>	<b>44,187</b>	<b>24,201</b>	<b>14,918</b>	<b>18,993</b>	<b>1,062</b>	<b>35,539</b>	
Provisions for employee benefits	14,448	21,353	14,112	2,209	117	19,597	Liabilities under employee benefits (short-term)
Provisions for warranty claims	1,970	0	281	892	945	1,742	Short-term provisions
Provision for loss on contracts	27,387	2,622	0	15,816	0	14,193	Short-term provisions
Other provisions	382	226	525	76	0	7	Short-term provisions
<b>Total provisions:</b>	<b>54,333</b>	<b>30,017</b>	<b>15,275</b>	<b>18,995</b>	<b>0</b>	<b>50,080</b>	

## 3.4. Advance payments

	Balance at 31-12-2020	Balance at 31-12-2019
Advance payments transferred in connection with performed contracts	3,123	9,764
Other advance payments	47	4
Allowances for advance payments	-47	-46
<b>Total advance payments due</b>	<b>3,123</b>	<b>9,722</b>

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

	Balance at 31-12-2020	Balance at 31-12-2019
Advance payments received in connection with performed contracts	28,841	27,888
Other advance payments	0	2
<b>Total advance payments received</b>	<b>28,841</b>	<b>27,890</b>

The received advance payments are the prepayments received by the Group on the basis of relevant provisions of the contracts with PKP PLK to perform construction contracts.



In the reporting period, an advance payment was received in connection with one railway contract and certain advance payments were accounted for as the works progressed.

### 3.5. Accruals

	Balance at 31-12-2020	Balance at 31-12-2019
Provisions for contract costs	64,169	60,755
Other accruals	1,448	667
<b>Total</b>	<b>65,617</b>	<b>61,422</b>

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 31-12-2020	Balance at 31-12-2019
Trade receivables	170,035	200,544
Allowances for trade receivables in connection with the increase of credit risk	-24,914	-18,889
Allowances for trade receivables – initial for expected credit losses	-189	-189
Receivables from the state budget other than corporate income tax	0	0
Other receivables	4,290	4,306
<b>Total trade and other receivables</b>	<b>149,222</b>	<b>185,772</b>

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 24,914 thousand comprise, in particular:

- Debit notes issued by the Group for penalties, damages and substitute performance. The amount is for presentation purposes only because the notes are not the Group'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 989 thousand and the recognition of allowances of PLN 1,062 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from the debit notes issued by the Group for the penalties and damages that are not the Group's revenue at the date of issue.

## Ageing analysis of trade receivables

	Balance at 31-12-2020	Balance at 31-12-2019
<b>Not past due receivables</b>	<b>143,371</b>	<b>179,660</b>
<b>Receivables that are past due but not impaired</b>	<b>1,750</b>	<b>1,995</b>
1-30 days	1,086	1,846
31-60 days	211	41
61-90 days	43	17
91-180 days	156	5
181-360 days	253	37
360 + days	1	49
<b>Past due receivables for which allowances were recognized</b>	<b>24,914</b>	<b>18,889</b>
1-30 days	41	333
31-60 days	1,052	158
61-90 days	1,151	0
91-180 days	1,801	623
181-360 days	3,697	1,567
360 + days	17,172	16,208
<b>Total trade receivables (gross)</b>	<b>170,035</b>	<b>200,544</b>
<b>Allowances for trade receivables</b>	<b>-24,914</b>	<b>-18,889</b>
<b>Total trade receivables (net)</b>	<b>145,121</b>	<b>181,655</b>

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

	Balance at 31-12-2020	Balance at 31-12-2019
Counterparty A	109,457	149,831

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 the EU funds. The Group has carried out the construction contracts for the Counterparty A for many years. The Counterparty A is co-owned by the State Treasury as a result of which their creditability is even higher. Accordingly, the Management Board of the Company believe there is no need to create additional provisions.

## 4.2. Trade and other payables

	Balance at 31-12-2020	Balance at 31-12-2019
Trade payables	131,382	148,615
Liabilities to the state budget other than corporate income tax	3,475	16,794
Other payables	216	222
<b>Total trade and other payables</b>	<b>135,073</b>	<b>165,631</b>

### Ageing analysis of trade payables

	Balance at 31-12-2020	Balance at 31-12-2019
<b>Not past due payables</b>	<b>127,412</b>	<b>110,265</b>
<b>Past due payables</b>	<b>3,970</b>	<b>38,350</b>
1-30 days	3,183	37,912
31-60 days	185	163
61-90 days	39	2
91-180 days	0	4
181-360 days	193	227
360 + days	370	42
<b>Total trade payables</b>	<b>131,382</b>	<b>148,615</b>

Past due payables result first of all from retained payments due to subcontractors' failure to supply the documents required to effect the payments and are temporary.

## 5. Equity

### 5.1. Share capital

At 31 December 2020, the amount of the registered share capital disclosed in the consolidated financial statements was PLN 5,757,520.75.

## Share capital as at 24 March 2021

(PLN)

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

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

At 31 December 2020, the share capital structure was the same as at 24 March 2021.

## 5.2. Profit (loss) per share

(PLN)

	Period ended 31-12-2020	Period ended 31-12-2019
Basic profit (loss) per share	0.19	0.16
Diluted profit (loss) per share	0.19	0.16

### 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 31-12-2020	Period ended 31-12-2019
Profit (loss) per share for the financial year	0.19	0.16
<b>Total profit (loss) used in the calculation of basic profit per share</b>	<b>4,260,864.18</b>	<b>3,750,962.44</b>
Weighted average number of ordinary shares used in the calculation of profit (loss) per share	23,030,083	23,030,083

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

### Diluted profit (loss) per share

There are no diluting instruments.

## 5.3. Share premium account

	Period ended 31-12-2020	Period ended 31-12-2019
<b>Balance at the beginning of the year</b>	<b>93,837</b>	<b>93,837</b>
Share issue	0	0
Issue costs	0	0
<b>Balance at the end of the year</b>	<b>93,837</b>	<b>93,837</b>

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

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

In 2013, the Company launched a new issue of class C shares. The *agio* generated by the Company on 6 December 2013 was PLN 9m. The costs of class C shares issue in 2013 amounted to PLN 0.5m. The Company did not launch any new issue of shares in the years 2014-2020.

## 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 31-12-2020	Period ended 31-12-2019
<b>Balance at the beginning of the year</b>	<b>53,386</b>	<b>49,717</b>
<b>Net profit distribution</b>	<b>3,753</b>	<b>-62,794</b>
Reserve funds	3,753	-23,359
Capital reserve	0	-39,435
Coverage of loss of prior years	0	0
<b>Profit (loss) of the current year</b>	<b>4,260</b>	<b>3,753</b>
<b>Other net comprehensive income</b>	<b>-57</b>	<b>-86</b>
<b>Payment of dividend for the prior year</b>	<b>0</b>	<b>0</b>
Change of interest in subsidiaries	0	0
Other	0	2

**Balance at the end of the year**

**57,589**

**53,386**

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

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

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

## **6. Debt and management of capital and liquidity**

### **6.1. Loans and bank credits**

	<b>Balance at 31-12-2020</b>	<b>Balance at 31-12-2019</b>
<b>Long-term</b>	<b>4,443</b>	<b>13,333</b>
Bank credits	0	0
Loans received	4,443	13,333
<b>Short-term</b>	<b>13,108</b>	<b>15,983</b>
Bank credits	3,950	9,053
Loans received	9,158	6,930
<b>Total</b>	<b>17,551</b>	<b>29,316</b>

## Summary of loan and credit agreements

### Balance as at 31 December 2020

No.	Bank	Description	Principal/limit according to the agreement as at 31-12-2020	Amount of available loans/credits as at 31-12-2020	Use as at 31-12-2020	Interest	Repayment date
1	mBank S.A.	Overdraft	10,000	10,000	0	O/N WIBOR + margin	July 2021
2	mBank S.A. (i)	Master agreement	25,000		0	1M WIBOR + margin	May 2021
	including:	sublimit for bonds	21,600	21,600	0		
		sublimit for non-revolving working capital credit	3,400	3,400	0		
3	Agencja Rozwoju Przemysłu S.A.	Loan agreement	20,000	0	13,333	1M WIBOR + margin	June 2022
4	BNP Paribas Bank Polska S.A.	Premium multipurpose line of credit agreement	30,000			1M WIBOR + margin	July 2022
	including:	sublimit for bonds	30,000	3,907	26 093		
		Overdraft	3,907	3,907	0		
5	mBank S.A.	Working capital credit	3,950	0	3,950	1M WIBOR + margin	January 2021
6	Magdalena Lis	Loan agreement	268	0	268	3M WIBOR + margin	Unspecified
<b>Total amount of available loans and credits</b>			<b>17,307</b>				
<b>Total debt under loans and credits</b>				<b>17,551</b>			
<b>Total use for bonds</b>				<b>26,093</b>			

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

Types of security and liabilities under loan and credit agreements:

**1. Overdraft:**

- Promissory note,
- Financial pledge on cash kept on the Company's bank accounts maintained by the Bank,
- Registered pledge on non-current assets – machinery and equipment owned by the Company,
- Statement on submission to enforcement,
- Assignment of rights under insurance policy.

**2. Master Agreement:**

- Contractual mortgage up to PLN 35,421 thousand on the land in Cracow,
- Security deposit established each time for the bond expiring after 36 months,
- Financial pledge on cash kept on the Company's bank accounts maintained by the Bank,
- Registered pledge on non-current assets – machinery and equipment owned by the Company,
- Statement on submission to enforcement,
- Assignment of rights under insurance policy.

**3. Loan agreement:**

- a) Contractual mortgage up to PLN 30,000 thousand on the real estate situated in Kościelisko,
- b) Registered pledge on non-current assets – machinery and equipment owned by the Company,
- c) Assignment of rights under insurance policy,
- d) Assignment of claims under contracts,
- e) Promissory note,
- f) Statement on submission to enforcement.

**4. Premium multi-purpose line of credit agreement:**

- a) Blank promissory note with declaration,
- b) Assignment of claims under contract,
- c) Credit repayment guarantee provided by BGK as part of PLG FGP guarantee line for 80% of the Credit; i.e. not more than PLN 24m.

**5. Working capital credit:**

- a) ZUE's guarantees,
- b) Registered pledge on inventories,
- c) Blank promissory note,
- d) Statement on submission to enforcement,
- e) Assignment of rights under insurance policy,
- f) Financial pledge on cash kept on the Company's bank accounts maintained by the Bank.

The following amendments were made in the reporting period to certain credit agreements signed by the Group:

- On 28 January 2020, the Company and BNP Paribas signed an annex to the Multipurpose Credit Line Agreement 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. As the credit cannot be taken under the Agreement, the Agreement is not disclosed by the Company in the table of credit agreements and the amount of the limit is disclosed exclusively in the list of guarantee limits (item 3 of the comparative information).
- On 5 February 2020, the debt under the multi-purpose credit line with BNP Paribas Bank was repaid in full and the limit expired (item 5 of the comparative information).
- BNP Paribas Bank – revolving credit agreement – the amount of instalments was changed and the final repayment date remained unchanged under the Annex of 6 March 2020 (item 9 of the comparative information).
- mBank – working capital credit for contract prefinancing (item 7 of the comparative information) – the amount of instalments was changed and the final repayment date was extended until 31 July 2020 under the Annex of 19 May 2020. The credit was timely repaid and the limit expired.
- On 15 May 2020, the debt under the revolving credit agreement with BNP Paribas Bank was repaid in full and the limit expired (item 9 of the comparative information).
- mBank – working capital credit (item 5) – on 22 May 2020, the security was changed through the creation of financial pledge on the borrower's bank accounts.
- mBank – Master Agreement (item 2) – on 26 May 2020, the Company and mBank signed the annex whereby the maturity date was extended by one year, the type of security was changed and the available limit was reduced.
- mBank – Master Agreement (item 2) – on 10 June 2020, the Company entered into the working capital credit agreement as part of the sublimit available under the Master Agreement.
- mBank – Overdraft (item 1) – on 9 July 2020, the Company and mBank signed the annex to the overdraft agreement whereby the repayment date was extended by another year and the type of security was changed.
- BNP Paribas – Premium multi-purpose line of credit agreement (item 4) – on 30 July 2020, ZUE and BNP Paribas signed the new agreement whereby the Company was granted the credit limit of up to PLN 30m. According to the agreement, the tenor was set until 30 July 2030.
- mBank – working capital credit (item 5) – a part of the credit of PLN 1,050 thousand was repaid on 6 August 2020.
- mBank – working capital credit (item 5) – on 19 August 2020, the subsidiary signed the annex to the working capital credit agreement whereby the repayment date was extended until 30 November 2020 and a new repayment schedule was defined.



- mBank – working capital credit (item 5) – on 18 November 2020, the subsidiary signed the annex to the working capital credit agreement whereby the repayment date was extended until 29 January 2021 and a new repayment schedule was defined.
- mBank – Master Agreement (item 2) – on 11 December 2020, the Company and mBank signed the annex no. 2 to the working capital credit agreement whereby a new repayment schedule was defined.

After the end of the reporting period:

- mBank – working capital credit (item 5) – on 26 January 2021, the subsidiary signed the annex to the working capital credit agreement whereby the repayment date was extended until 31 May 2021 and a new repayment schedule was defined.
- mBank – Master Agreement (item 2) – on 3 March 2021, the Company fully repaid the credit granted on 10 June 2020 before the deadline.
- BNP Paribas – *Premium* multi-purpose line of credit agreement (item 4) – on 22 March 2021, the Company received from BNP Paribas the signed annex to *premium* multipurpose line of credit agreement whereby the limit granted to the Company was raised to PLN 65m and the type of security was changed. The tenor remained unchanged.
- On 22 March 2021, the Company and BNP Paribas signed the annex to the multipurpose line of credit agreement whereby the limit could be used for a longer time until 21 March 2022 (item 3 of the comparative information).

**Comparative information:**

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 S.A. (i)	Master Agreement including: sublimit for bonds non-revolving working capital credit	50,000 50,000 40,000	  40,000	0 0 0	1M WIBOR + margin	July 2020
3	BGŻ BNP PARIBAS S.A.	Multipurpose credit line agreement including: sublimit for bonds sublimit for working capital credits	170,000 170,000 20,000	  20,000	52,621 52,621 0	1M WIBOR + margin	January 2020
4	Agencja Rozwoju Przemysłu S.A.	Loan agreement	20,000	0	20,000	1M WIBOR + margin	June 2022

5	BNP Paribas Bank Polska S.A.	Multipurpose credit line	600	17	583	1M WIBOR + margin	January 2020
6	mBank S.A.	Overdraft	500	426	74	ON WIBOR + margin	May 2020
7	mBank S.A.	Working capital credit for contract prefinancing	1,800	0	896	1M WIBOR + margin	March 2020
8	mBank S.A.	Working capital credit	5,000	0	5,000	1M WIBOR + margin	August 2020
9	BNP Paribas Bank Polska S.A.	Revolving credit agreement	2,500	0	2,500	3M WIBOR + margin	May 2020
10	Magdalena Lis	Loan agreement	263	0	263	3M WIBOR + margin	Unspecified
<b>Total amount of available loans and credits</b>			<b>70,443</b>				
<b>Total debt under loans and credits</b>			<b>29,316</b>				
<b>Total use for bonds</b>			<b>52,621</b>				

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

## 6.2. Leases

### Lease liabilities

	<b>Balance at 31-12-2020</b>	<b>Balance at 31-12-2019</b>
Long-term lease liabilities	12,386	12,450
Short-term lease liabilities	9,130	10,016
<b>Total</b>	<b>21,516</b>	<b>22,466</b>

In the reporting period, the Group signed the leaseback for the wagons required to transport loose materials in the total amount of PLN 8,481 thousand.

	<b>Minimum lease payments</b>		<b>Present value of minimum lease payments</b>	
	<b>Balance at 31-12-2020</b>	<b>Balance at 31-12-2019</b>	<b>Balance at 31-12-2020</b>	<b>Balance at 31-12-2019</b>
Not later than one year	9,679	10,738	9,130	10,016
Later than one year and not later than five years	8,621	8,667	7,139	7,192
Later than five years	19,215	19,553	5,247	5,258

Less: future finance charges	-15,999	-16,492	0	0
<b>Present value of minimum lease payments</b>	<b>21,516</b>	<b>22,466</b>	<b>21,516</b>	<b>22,466</b>

### General terms of lease

The leases signed by the Group mainly concern vehicles. The term of the leases concerning manufacturing equipment and vehicles is from three to six years. The Group has an option to purchase the equipment at the end of the lease for a price equal to their residual value. The Group's liabilities under finance leases are secured by the lessor's title to the leased assets and a blank promissory note. 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

The Group 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 which are treated as short-term leases; and
2. Not to recognise leases where the underlying asset has a low value; i.e. PLN 20 thousand.

The costs associated with short-term and low value leases amounted to PLN 4,587 thousand in 2020 and to PLN 3,762 thousand in 2019.

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

No.	Note	31-12-2020	31-12-2019
2.2.	Depreciation and amortisation	4,434	3,829
2.6.	Financial expenses – interest on leases	726	1,127

No.	Note	31-12-2020	31-12-2019
6.2.	Leases – lease liabilities	21,516	22,466
7.4.	Right-of-use assets	41,900	57,092

## 6.3. Management of capital

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

During the review, the Group 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 31-12-2020	Balance at 31-12-2019
Long- and short-term loans and bank credits	17,551	29,316
Long- and short-term lease liabilities	21,516	22,466

Long- and short-term other financial liabilities	36	106
<b>Total financial liabilities</b>	<b>39,103</b>	<b>51,888</b>
Cash and cash equivalents	23,487	30,378
<b>Net debt</b>	<b>15,616</b>	<b>21,510</b>
Equity	154,649	150,441
<b>Net debt to equity ratio</b>	<b>10.10%</b>	<b>14.30%</b>

Positive net debt is due to the fact that total financial liabilities at the end of 2020 exceeded the amount of cash at the Group.

The Group uses own resources, loan, credits and leases to finance day-to-day operations.

The information on the financial ratios contained in this report is cyclically monitored and presented in subsequent interim reports. Definitions of alternative measurements result from the layout of individual lines in relevant tables and according to the Issuer, no additional defining is required.

#### Changes in liabilities resulting from financing activities

Item	Non-cash flows						31-12-2020
	01-01-2020	Cash flows (change)	Change on gain/loss of control	Change on foreign exchange gains/losses	Change on conclusion of new leases	Reclassification	
Long-term loans and bank credits	13,333	-8,890	0	0	0	0	4,443
Long-term lease liabilities	12,450	0	0	0	6,031	-6,095	12,386
Long-term other financial liabilities	0	0	0	0	0	0	0
Short-term loans and bank credits	15,983	-2,875	0	0	0	0	13,108
Short-term lease liabilities	10,016	-12,282	0	0	5,301	6,095	9,130
Short-term other financial liabilities	106	-70	0	0	0	0	36
<b>Total financing liabilities</b>	<b>51,888</b>	<b>-24,117</b>	<b>0</b>	<b>0</b>	<b>11,332</b>	<b>0</b>	<b>39,103</b>

## 6.4. Financial lease management

The main financial instruments used by the Group include:

- Leases;
- Credits;
- Loan 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 Group's operations.

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

### Foreign exchange risk – sensitivity to changes

To analyse the sensitivity to exchange rate changes, the reasonably possible change in foreign exchange rates was assessed, on the basis of historical changes and the Group's experience and knowledge of financial markets, at -5% / +5% for EUR/PLN exchange rate as at 31 December 2020.

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 2020	
			Depreciation of PLN	Appreciation of other currencies
			+5%	-5%
Cash	EUR	392	20	-20
	USD	147	7	-7
	HRK	1	0	0
Trade and other payables	EUR	1,331	-67	67
Trade and other receivables	EUR	539	27	-27
<b>Gross effect on profit or loss of the period and net assets</b>			<b>-13</b>	<b>13</b>
Deferred tax			2	-2
<b>Total</b>			<b>-11</b>	<b>11</b>

The Group had no hedging currency futures as at 31 December 2020 or 31 December 2019.

## Interest rate risk

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

### Interest rate risk – sensitivity to changes

To analyse the sensitivity to interest rate changes, the reasonably possible change in interest rates was assessed, on the basis of historical changes and the Group's experience and knowledge of financial markets, at -1 / +1 pp at 31 December 2020. 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 2020.

	Amount at the end of the reporting period	Balance at 31-12-2020	
		+100 bp	-100 bp
Long-term retentions on construction contracts (discount):			
– recognised in assets (present value)	8,515	-380	403
– recognised in liabilities (present value)	18,821	-638	686
Cash at banks	23,487	235	-235
Advanced loans	10	0	0
Bank credits and loans	17,551	-176	176
Lease liabilities	21,516	-215	215
<b>Gross effect on profit or loss of the period and net assets</b>		<b>-1,174</b>	<b>1,245</b>
Deferred tax		223	-236
<b>Total</b>		<b>-952</b>	<b>1,008</b>

## Price risk

The Group is exposed to price risk relating to the increase in prices of the most popular products and raw materials such as concrete, aggregates, steel elements (including 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 Group reduces the price risk by signing master agreements for the supply of strategic materials.

## Credit risk

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

The Group'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 Group both at the stage of tender submission and at the stage of project execution.

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

The nature of construction activities requires the Group 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 Group's customers to timely settle their liabilities to the Group directly influences the Group's financial results.

### Liquidity risk

The Group 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 Group 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 projections.

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

## 6.5. Cash and cash equivalents

	Balance at 31-12-2020	Balance at 31-12-2019
Cash on hand and at banks	23,487	30,378
Bank deposits up to three months	0	0
<b>Total</b>	<b>23,487</b>	<b>30,378</b>

The cash decreased at the end of 2020 after it had been used to conduct operating activities. The Group optimized cash at the end of the year through the repayment of debt in order to minimize bank fees.

The cash does not include the cash on escrow accounts attributable to consortium members. The Group believes that the cash cannot be defined as an asset and is not presented in the balance sheet. There was no cash attributable to consortium members on escrow accounts as at 31 December 2020 or 31 December 2019.

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

The Group's cash flows from operating activities were mainly influenced by changes in receivables, payables, retentions, advance payments, inventories, measurement of long-term construction contracts and accruals in connection with the performance of construction contracts.

Cash flows from investing activities were mainly influenced by the purchase of non-current assets and intangible assets.

Cash flows from financing activities were influenced by the financing with the use of credit and leaseback, the decrease in liabilities under loans and credits and the decrease in lease liabilities.

	Period ended 31-12-2020	Period ended 31-12-2019
Cash flows from operating activities	16,314	-53,530
Cash flows from investing activities	-6,051	-2,245
Cash flows from financing activities	-17,160	4,432
<b>Total net cash flows</b>	<b>-6,897</b>	<b>-51,343</b>
Cash at the beginning of the period	30,378	81,723
Cash at the end of the period	23,487	30,378

## 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
<b>Balance at 1 January 2020</b>	<b>0</b>	<b>26,311</b>	<b>37,335</b>	<b>55,709</b>	<b>2,331</b>	<b>121,686</b>	<b>377</b>	<b>27</b>	<b>122,090</b>
Additions	0	56	1,581	4,260	230	6,127	1,199	46	7,372
Adjustment	0	2,268	179	46	0	2,493	0	0	2,493
Reclassification – right-of-use*	0	0	10,457	4,827	0	15,284	0	0	15,284
Transfer to non-current assets	0	0	0	0	0	0	1,252	73	1,325
Sale/Liquidation	0	189	945	4,891	136	6,161	0	0	6,161
Reclassified to assets held for sale	0	-5,209	0	0	0	-5,209	0	0	-5,209
<b>Balance at 31 December 2020</b>	<b>0</b>	<b>23,237</b>	<b>48,607</b>	<b>59,951</b>	<b>2,425</b>	<b>134,220</b>	<b>324</b>	<b>0</b>	<b>134,544</b>

Depreciation	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at 1 January 2020</b>	<b>0</b>	<b>9,594</b>	<b>23,563</b>	<b>30,492</b>	<b>1,916</b>	<b>65,565</b>	<b>0</b>	<b>0</b>	<b>65,565</b>
Elimination on disposal of assets	0	178	880	4,796	136	5,990	0	0	5,990
Reclassification – right-of-use* - depreciation expense	0	0	1,847	671	0	2,518	0	0	2,518
Depreciation expense	0	722	2,768	4,815	94	8,399	0	0	8,399
Adjustment	0	871	56	1,543	22	2,492	0	0	2,492



Reclassified to assets held for sale	0	-2,041	0	0	0	-2,041	0	0	-2,041
<b>Balance at 31 December 2020</b>	<b>0</b>	<b>8,968</b>	<b>27,354</b>	<b>32,725</b>	<b>1,896</b>	<b>70,943</b>	<b>0</b>	<b>0</b>	<b>70,943</b>
<b>Carrying amount</b>									
<b>Balance at 1 January 2020</b>	<b>0</b>	<b>16,717</b>	<b>13,772</b>	<b>25,217</b>	<b>415</b>	<b>56,121</b>	<b>377</b>	<b>27</b>	<b>56,525</b>
<b>Balance at 31 December 2020</b>	<b>0</b>	<b>14,269</b>	<b>21,253</b>	<b>27,226</b>	<b>529</b>	<b>63,277</b>	<b>324</b>	<b>0</b>	<b>63,601</b>

\* Purchase at the end of the lease.

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

As at 31 December 2020, the amount of net liabilities incurred to purchase property, plant and equipment was PLN 183 thousand. As at 31 December 2020, the gross carrying amount of fully depreciated property, plant and equipment still used by the Group was PLN 15,645 thousand.

#### Assets pledged as security

The types of security for the bank agreements concerning property, plant and equipment are discussed in the note 7.20.

#### 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
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>26,220</b>	<b>52,061</b>	<b>85,735</b>	<b>2,291</b>	<b>166,307</b>	<b>302</b>	<b>0</b>	<b>166,609</b>
Opening balance adjustment	0	0	-19,437	-36,016	0	-55,453	0	0	-55,453
<b>Balance at 1 January 2019 after OB adjustment</b>	<b>0</b>	<b>26,220</b>	<b>32,624</b>	<b>49,719</b>	<b>2,291</b>	<b>110,854</b>	<b>302</b>	<b>0</b>	<b>111,156</b>
Additions	0	91	1,545	2,791	103	<b>4,530</b>	738	27	5,295
Reclassification – right-of-use*	0	0	3,887	3,813	0	<b>7,700</b>	0	0	7,700
Transfer to non-current assets	0	0	0	0	0	<b>0</b>	663	0	663
Sale/liquidation	0	0	721	614	63	<b>1,398</b>	0	0	1,398
<b>Balance at 31 December 2019</b>	<b>0</b>	<b>26,311</b>	<b>37,335</b>	<b>55,709</b>	<b>2,331</b>	<b>121,686</b>	<b>377</b>	<b>27</b>	<b>122,090</b>

Depreciation	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>8,716</b>	<b>23,084</b>	<b>28,227</b>	<b>1,882</b>	<b>61,909</b>	<b>0</b>	<b>0</b>	<b>61,909</b>
Opening balance adjustment	0	0	-1,964	-1,946	0	-3,910	0	0	-3,910
<b>Balance at 1 January 2019 after OB adjustment</b>	<b>0</b>	<b>8,716</b>	<b>21,120</b>	<b>26,281</b>	<b>1,882</b>	<b>57,999</b>	<b>0</b>	<b>0</b>	<b>57,999</b>

Elimination on disposal of assets	0	0	708	503	62	1,273	0	0	1,273
Reclassification – right-of-use* - depreciation expense	0	0	599	343	0	942	0	0	942
Depreciation expense	0	878	2,552	4,371	96	7,897	0	0	7,897
<b>Balance at 31 December 2019</b>	<b>0</b>	<b>9,594</b>	<b>23,563</b>	<b>30,492</b>	<b>1,916</b>	<b>65,565</b>	<b>0</b>	<b>0</b>	<b>65,565</b>
<b>Carrying amount</b>									
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>17,504</b>	<b>28,977</b>	<b>57,508</b>	<b>409</b>	<b>104,398</b>	<b>302</b>	<b>0</b>	<b>104,700</b>
<b>Balance at 1 January 2019 after OB adjustment</b>	<b>0</b>	<b>17,504</b>	<b>11,504</b>	<b>23,438</b>	<b>409</b>	<b>52,855</b>	<b>302</b>	<b>0</b>	<b>53,157</b>
<b>Balance at 31 December 2019</b>	<b>0</b>	<b>16,717</b>	<b>13,772</b>	<b>25,217</b>	<b>415</b>	<b>56,121</b>	<b>377</b>	<b>27</b>	<b>56,525</b>

\* Purchase at the end of the lease.

## 7.2. Investment property

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
<b>Balance at 1 January 2020</b>	<b>126</b>	<b>5,243</b>	<b>4,594</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,963</b>
Additions	0	0	0	0	0	0	0
Adjustment	0	470	-470	0	0	0	0
Impairment	0	1,000	0	0	0	0	1,000
Sale/Liquidation	0	0	0	0	0	0	0
<b>Balance at 31 December 2020</b>	<b>126</b>	<b>6,713</b>	<b>4,124</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,963</b>

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
<b>Balance at 1 January 2020</b>	<b>0</b>	<b>1,743</b>	<b>2,343</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,086</b>
Elimination on disposal of assets	0	0	0	0	0	0	0
Adjustment	0	-183	183	0	0	0	0
Depreciation expense	0	152	228	0	0	0	380
<b>Balance at 31 December 2020</b>	<b>0</b>	<b>2,078</b>	<b>2,388</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,466</b>
<b>Carrying amount</b>							
<b>Balance at 1 January 2020</b>	<b>126</b>	<b>3,500</b>	<b>2,251</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,877</b>
<b>Balance at 31 December 2020</b>	<b>126</b>	<b>4,635</b>	<b>1,736</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,497</b>

The investment property as at 31 December 2020 included the real estate in Kościelisko. The investment property comprises buildings with land and leasehold land. The Group's investment property is held either as freehold or leasehold interests.

In the reporting period, the Group released impairment losses of PLN 1,000 thousand. The total amount of investment property impairment losses is PLN 770 thousand.

The investment property was measured at purchase price less impairment losses. The Group did not receive any revenue from the lease of investment property in 2020 or 2019. Operating expenses relating to investment property amounted in 2020 to PLN 456 thousand (PLN 459 thousand in 2019).

### Assets pledged as security

The types of security for the bank agreements concerning investment property are discussed in the note 7.20.

**Comparative information:**

Gross value	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
<b>Balance at 1 January 2019</b>	<b>126</b>	<b>4,251</b>	<b>4,594</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,971</b>
Opening balance adjustment	0	992	0	0	0	0	992
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>126</b>	<b>5,243</b>	<b>4,594</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,963</b>
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
<b>Balance at 31 December 2019</b>	<b>126</b>	<b>5,243</b>	<b>4,594</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,963</b>

Depreciation	Freehold land	Leasehold	Buildings	Plant and equipment	Vehicles	Other	TOTAL
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>1,656</b>	<b>2,050</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,706</b>
Opening balance adjustment	0	0	0	0	0	0	0
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>1,656</b>	<b>2,050</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,706</b>
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	87	293	0	0	0	380
<b>Balance at 31 December 2019</b>	<b>0</b>	<b>1,743</b>	<b>2,343</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,086</b>

**Carrying amount**

<b>Balance at 1 January 2019</b>	<b>126</b>	<b>2,595</b>	<b>2,544</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,265</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>126</b>	<b>3,587</b>	<b>2,544</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,257</b>
<b>Balance at 31 December 2019</b>	<b>126</b>	<b>3,500</b>	<b>2,251</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,877</b>

## 7.3. Intangible assets

### Structure of intangible assets:

	Balance at 31-12-2020	Balance at 31-12-2019
<b>Acquired concessions, patents, licenses and similar assets, including:</b>	<b>2,073</b>	<b>1,521</b>
- software	2,073	1,521

### Movement in intangible assets:

	Other intangible assets – software
<b>Gross value</b>	
<b>Balance at 1 January 2020</b>	<b>5,778</b>
Additions	647
Sale/Liquidation	329
<b>Balance at 31 December 2020</b>	<b>6,096</b>
<b>Amortisation and impairment</b>	
<b>Balance at 1 January 2020</b>	<b>4,257</b>
Amortisation expense	93
Sale/Liquidation	327
<b>Balance at 31 December 2020</b>	<b>4,023</b>
<b>Carrying amount</b>	
<b>Balance at 1 January 2020</b>	<b>1,521</b>
<b>Balance at 31 December 2020</b>	<b>2,073</b>

No impairment losses were recognised by the Group in 2020 or 2019. As at 31 December 2020, the gross carrying amount of fully amortised intangible assets still in use was PLN 4,875 thousand.

### Comparative information:

	Leasehold	Other intangible assets – software	Total
<b>Gross value</b>			
<b>Balance at 1 January 2019</b>	<b>9,341</b>	<b>4,566</b>	<b>13,907</b>
<b>OB adjustment</b>	<b>-9,341</b>	<b>0</b>	<b>-9,341</b>
<b>Balance at 1 January 2019 after OB adjustment</b>	<b>0</b>	<b>4,566</b>	<b>4,566</b>
Additions	0	1,427	1,427
Sale/liquidation	0	57	57
Adjustment	0	-131	-131

<b>Balance at 31 December 2019</b>	<b>0</b>	<b>5,805</b>	<b>5,805</b>
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#### Amortisation and impairment

<b>Balance at 1 January 2019</b>	<b>949</b>	<b>4,342</b>	<b>5,291</b>
<b>OB adjustment</b>	<b>-949</b>	<b>0</b>	<b>-949</b>
<b>Balance at 1 January 2019 after OB adjustment</b>	<b>0</b>	<b>4,342</b>	<b>4,342</b>
Amortisation expense	0	122	122
Sale/liquidation	0	57	57
Adjustment	0	-123	-123
<b>Balance at 31 December 2019</b>	<b>0</b>	<b>4,284</b>	<b>4,284</b>
<b>Carrying amount</b>			
<b>Balance at 1 January 2019</b>	<b>8,392</b>	<b>224</b>	<b>8,616</b>
<b>Balance at 1 January 2019 after OB adjustment</b>	<b>0</b>	<b>224</b>	<b>224</b>
<b>Balance at 31 December 2019</b>	<b>0</b>	<b>1,521</b>	<b>1,521</b>

## 7.4. Right-of-use assets

<b>Gross value</b>	<b>Freehold land</b>	<b>Leasehold land</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2020</b>	<b>1,239</b>	<b>13,844</b>	<b>1,157</b>	<b>15,592</b>	<b>33,857</b>	<b>0</b>	<b>65,689</b>
Conclusion of new contracts	522	0	186	730	2,305	0	3,743
Changes resulting from the amendments to contracts	0	0	0	-41	-263	0	-304
Reclassification – right of use*	0	0	0	-10,457	-4,827	0	-15,284
Changes resulting from the shortening of contract	-1,761	0	-1,343	0	-70	0	-3,174
Adjustment	0	233	0	0	0	0	233
Reclassification to assets held for sale	0	-913	0	0	0	0	-913
<b>Balance at 31 December 2020</b>	<b>0</b>	<b>13,164</b>	<b>0</b>	<b>5,824</b>	<b>31,002</b>	<b>0</b>	<b>49,990</b>

<b>Depreciation</b>	<b>Freehold land</b>	<b>Leasehold land</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2020</b>	<b>535</b>	<b>1,128</b>	<b>618</b>	<b>2,282</b>	<b>4,034</b>	<b>0</b>	<b>8,597</b>
Depreciation expense	518	176	550	810	2,380	0	4,434
Reclassification – right of use* - depreciation expense	0	0	0	-1,847	-671	0	-2,518
Elimination on the shortening of contract	1,053	0	1,168	34	309	0	2,564
Adjustment	0	233	0	0	0	0	233
Reclassification to assets held for sale	0	-92	0	0	0	0	-92
<b>Balance at 31 December</b>	<b>0</b>	<b>1,445</b>	<b>0</b>	<b>1,211</b>	<b>5,434</b>	<b>0</b>	<b>8,090</b>

<b>2020</b>							
<b>Carrying amount</b>							
<b>Balance at 1 January 2020</b>	<b>704</b>	<b>12,716</b>	<b>539</b>	<b>13,310</b>	<b>29,823</b>	<b>0</b>	<b>57,092</b>
<b>Balance at 31 December 2020</b>	<b>0</b>	<b>11,719</b>	<b>0</b>	<b>4,613</b>	<b>25,568</b>	<b>0</b>	<b>41,900</b>

\*Purchase at the end of the lease.

### Assets pledged as security

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

### Comparative information:

<b>Gross value</b>	<b>Freehold land</b>	<b>Leasehold land</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Opening balance adjustment	812	13,835	932	19,475	36,699	0	71,753
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>812</b>	<b>13,835</b>	<b>932</b>	<b>19,475</b>	<b>36,699</b>	<b>0</b>	<b>71,753</b>
Conclusion of new contracts	510	0	406	4	995	0	1,915
Changes resulting from the amendments to contracts	-17	0	0	0	-24	0	-41
Reclassification – right of use*	0	0	0	-3,887	-3,813	0	-7,700
Changes resulting from the shortening of contracts	-66	0	-181	0	0	0	-247
Adjustment	0	9	0	0	0	0	9
<b>Balance at 31 December 2019</b>	<b>1,239</b>	<b>13,844</b>	<b>1,157</b>	<b>15,592</b>	<b>33,857</b>	<b>0</b>	<b>65,689</b>

<b>Depreciation</b>	<b>Freehold land</b>	<b>Leasehold land</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Opening balance adjustment	0	948	0	1,964	1,947	0	4,859
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>0</b>	<b>948</b>	<b>0</b>	<b>1,964</b>	<b>1,947</b>	<b>0</b>	<b>4,859</b>
Depreciation expense	570	180	674	917	2,430	0	4,771
Reclassification – right of use* - depreciation expense	0	0	0	-599	-343	0	-942
Elimination on the shortening of contract	35	0	56	0	0	0	91
<b>Balance at 31 December 2019</b>	<b>535</b>	<b>1,128</b>	<b>618</b>	<b>2,282</b>	<b>4,034</b>	<b>0</b>	<b>8,597</b>

**Carrying amount**

<b>Balance at 1 January 2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance at 1 January 2019 after opening balance adjustment</b>	<b>812</b>	<b>12,887</b>	<b>932</b>	<b>17,511</b>	<b>34,752</b>	<b>0</b>	<b>66,894</b>
<b>Balance at 31 December 2019</b>	<b>704</b>	<b>12,716</b>	<b>539</b>	<b>13,310</b>	<b>29,823</b>	<b>0</b>	<b>57,092</b>

\*Purchase at the end of the lease.

**7.5. Assets held for sale**

<b>Gross value</b>	<b>Freehold land</b>	<b>Leasehold land</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2020</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Liquidations	0	0	1,359	0	0	0	1,359
Reclassification from property, plant and equipment	0	0	5,209	0	0	0	5,209
Reclassification from right-of-use assets	0	913	0	0	0	0	913
<b>Balance at 31 December 2020</b>	<b>0</b>	<b>913</b>	<b>3,850</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,763</b>

<b>Depreciation</b>	<b>Freehold land</b>	<b>Leasehold land</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2020</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Elimination on disposal of assets	0	0	710	0	0	0	710
Reclassification from property, plant and equipment	0	0	2,041	0	0	0	2,041
Reclassification from right-of-use assets	0	92	0	0	0	0	92
<b>Balance at 31 December 2020</b>	<b>0</b>	<b>92</b>	<b>1,331</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,423</b>

<b>Carrying amount</b>							
<b>Balance at 1 January 2020</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance at 31 December 2020</b>	<b>0</b>	<b>821</b>	<b>2,519</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,340</b>

The real estate located in Magdalenka was sold on 4 August 2020. The transaction's result was positive and amounted to PLN 401 thousand.



The assets held for sale as at 31 December 2020 included the real estate situated in Poznań. No assets held for sale were held by the Group as at 31 December 2019.

As at 31 December 2020, the amount of lease liabilities on assets held for sale was PLN 366 thousand.

The Group intends to sell the real estate in Poznań and expects the transaction to be at least equal to the carrying amount of assets. The sale is expected to take place within 12 months of the end of the reporting period.

## 7.6. Goodwill

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

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

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

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

The goodwill of BPK Poznań is fully assigned to the design activity segment.

	<b>Balance at 31-12-2020</b>	<b>Balance at 31-12-2019</b>
<b>At cost</b>		
Goodwill of PRK	31,172	31,172
Goodwill of BPK Poznań	1,474	1,474
Impairment losses (BPK Poznań)	-1,474	-1,474
<b>Balance at the end of the reporting period</b>	<b>31,172</b>	<b>31,172</b>

### Annual goodwill impairment test

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

The recoverable amount was determined using the discounted future cash flows method. The rate of average weighted cost of capital including the projected structure and the cost of financing, and the market risks was 8.8%.

After it had considered external circumstances influencing a long-term market capitalization of the Company below the carrying amount, the Group carried out tests for the impairment of the Company's assets as at 31 December 2020.

The impairment tests carried out at 31 December 2020 according to *IAS 36 Impairment of Assets* revealed no indication of impairment 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

At the end of the reporting period, ZUE holds 100% of shares in Railway Technology International Sp. z o.o. of Cracow. The subsidiary is not operating. RTI holds a 100% interest in Railway Technology International Germany GmbH in liquidation of Görlitz, Germany. The company is also not operating.

Company name	Core business	Registered office and principal place of business	Interests %		Value at historical cost	
			Balance at 31-12-2020	Balance at 31-12-2019	Balance at 31-12-2020	Balance at 31-12-2019
Railway Technology International Sp. z o.o.	Holding activities	Cracow	100%	100%	211	211
<b>Total investments in subordinates</b>					<b>211</b>	<b>211</b>
Allowances for shares of RTI (cumulative)					211	211
<b>Total investments in subordinates net of allowances</b>					<b>0</b>	<b>0</b>

## 7.8. Other financial assets

No other financial assets were held by the Group at 31 December 2020 or 31 December 2019.

## 7.9. Other assets

	Current assets		Non-current assets	
	Balance at 31-12-2020	Balance at 31-12-2019	Balance at 31-12-2020	Balance at 31-12-2019
Prepayments	613	1,117	224	189
Other receivables	33	9	0	0
<b>Total</b>	<b>646</b>	<b>1,126</b>	<b>224</b>	<b>189</b>

The amount of short-term prepayments mainly includes the items of property insurance and defects liability bonds accounted for over time.

## 7.10. Advanced loans

	Balance at 31-12-2020	Balance at 31-12-2019
Loans advanced to related parties	165	76
Loans advanced to third parties	285	285
Impairment losses	-440	-361
<b>Total</b>	<b>10</b>	<b>0</b>

Advanced loans include principal and interest charged at the end of the reporting period. In the reporting period, the Group granted special-purpose loans of PLN 90 thousand to subsidiaries.

## 7.11. Inventories

	Balance at 31-12-2020	Balance at 31-12-2019
Goods, raw and other materials	24,893	29,542
Work-in-progress	205	612
Finished goods	208	199
<b>Total</b>	<b>25,306</b>	<b>30,353</b>

The security for liabilities created on inventories at 31 December 2020 and 31 December 2019 amounted to PLN 4,000 thousand.

No inventory write-downs were recorded in the reporting period. The total amount of write downs was PLN 191 thousand as at 31 December 2020 and PLN 197 thousand as at 31 December 2019.

## 7.12. Other financial liabilities

	Current		Non-current	
	Balance at 31-12-2020	Balance at 31-12-2019	Balance at 31-12-2020	Balance at 31-12-2019
Financial liabilities to the State Treasury	0	70	0	0
Liabilities under dividends	36	36	0	0
<b>Total</b>	<b>36</b>	<b>106</b>	<b>0</b>	<b>0</b>

## 7.13. Liabilities under employee benefits

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

	Balance at 31-12-2020	Balance at 31-12-2019
<b>Pension and retirement gratuities, including:</b>	<b>1,499</b>	<b>1,352</b>
– present amount of obligation at the end of the reporting period	1,499	1,352
– actuarial gains / (losses) unrecognised at the end of the reporting period	0	0
– past service cost unrecognised at the end of the reporting period	0	0
<b>Liabilities to employees</b>	<b>0</b>	<b>968</b>
<b>Other employee benefits</b>	<b>33,225</b>	<b>29,269</b>
– provision for unused leaves	7,249	5,529
– provision for bonuses	15,376	13,840
– salaries and wages	5,371	5,158
– social security and other benefits	5,229	4,742
<b>Total obligation under retirement and other benefits</b>	<b>34,724</b>	<b>31,589</b>
including:		
– long-term	1,411	2,092

– short-term

33,313

29,497

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:**

	<b>Balance at 31-12-2020</b>	<b>Balance at 31-12-2019</b>
Discount rate	1.59%	2.01%
Expected future rise in salaries and wages	2.50%	2.50%

**Pension and retirement gratuities**

	<b>Period ended 31-12-2020</b>	<b>Period ended 31-12-2019</b>
<b>Present amount of obligation at the beginning of the period</b>	<b>1,352</b>	<b>1,123</b>
Interest expense	22	29
Current service cost	162	142
Past service cost	0	0
Benefits paid	-110	-49
Actuarial (gains) / losses	73	107
<b>Present amount of obligation at the end of the period</b>	<b>1,499</b>	<b>1,352</b>

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

	<b>Period ended 31-12-2020</b>	<b>Period ended 31-12-2019</b>
Current service cost	162	142
Interest expense	22	29
Actuarial (gains) / losses to be recognised in the period	73	107
Past service cost	0	0
<b>Costs recognised in statement of comprehensive income</b>	<b>257</b>	<b>278</b>
Amount recognised in profit or loss	187	172
Amount recognised in other comprehensive income (without deferred tax)	70	106

	<b>Period ended 31-12-2020</b>	<b>Period ended 31-12-2019</b>
Actuarial gains (losses) relating to specific benefit schemes	70	106
Deferred tax	-13	-20
<b>Amount recognised in other comprehensive income</b>	<b>57</b>	<b>86</b>

Actuarial gains and losses are recognized by the Group in the statement of comprehensive income.

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 2020 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	1,407	92	1,499
rotation rate -1.0%	1,460	97	1,557
rotation rate +1.0%	1,361	89	1,450
probability of drawing pension -0.5	1,415	76	1,491
probability of drawing pension +0.5	1,401	108	1,509
technical discount rate -1.00%	1,479	96	1,575
technical discount rate +1.00%	1,343	90	1,433
<i>rise in bases</i>	0	0	0
remuneration at the Company -1.0%	1,282	88	1,370
remuneration at the Company +1.0%	1,554	99	1,653

## 7.14. Financial instruments

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

### Balance at 31 December 2020

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)	13,569	0	0	0	40,197
Trade receivables	170,035	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	450	0	0	0	0
Cash and cash equivalents	23,487	0	0	0	0
Loans and bank credits	0	0	0	0	17,551
Lease liabilities	0	0	0	0	21,516
Trade payables	0	0	0	0	131,382
<b>Total</b>	<b>207,541</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>210,682</b>

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

### 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	Financial liabilities at amortised cost
----------------------------------	------------------------------------	-----------------------------------------	-------------------------------------	-----------------------------------------

		Profit or loss	Other comprehensive income	through profit or loss	
Retentions on construction contracts (before discount)	13,687	0	0	0	34,254
Trade receivables	200,544	0	0	0	0
Other financial liabilities	0	0	0	0	106
Advanced loans	0	0	0	0	0
Cash and cash equivalents	30,378	0	0	0	0
Loans and bank credits	0	0	0	0	29,316
Lease liabilities	0	0	0	0	22,466
Trade payables	0	0	0	0	148,615
<b>Total</b>	<b>244,609</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>234,757</b>

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

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

Age structure	Balance at 31-12-2020	Balance at 31-12-2019
– less than 1 year	172,679	194,485
– 1 - 3 years	18,146	23,742
– 3 - 5 years	2,560	1,681
– 5 + years	17,297	14,849
<b>Total</b>	<b>210,682</b>	<b>234,757</b>

#### Derivative instruments

No derivative instrument transactions were entered into by the Group in 2020 or 2019.

## 7.15. Transactions with related parties

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

	Receivables		Payables	
	Balance at		Balance at	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Revenue		Purchases	
	Period ended		Period ended	

	31-12-2020	31-12-2019	31-12-2020	31-12-2019
RTI	3	3	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	48	0	0
<b>Total</b>	<b>3</b>	<b>51</b>	<b>0</b>	<b>0</b>

	Advanced loans		Financial income (interest)	
	Balance at		Period ended	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
RTI	10	0	0	0
RTI Germany	155	76	0	0
Wiesław Nowak	0	0	0	0
<b>Total</b>	<b>165</b>	<b>76</b>	<b>0</b>	<b>0</b>

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

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

On 21 February 2020, ZUE and RTI Germany signed the special-purpose loan agreement. The loan of EUR 7000 will be repaid by 20 December 2020. EUR 4000 was disbursed on the date of the agreement and the remaining amount of EUR 3000 was disbursed on 17 November 2020.

On 22 July 2020, ZUE and RTI signed the special-purpose loan agreement. The loan of PLN 10,000 will be repaid by 22 July 2021. The loan was disbursed on 23 July 2020.

On 24 November 2020, ZUE and RTI Germany signed the special-purpose loan agreement. The loan of EUR 11,000 will be repaid by 20 December 2021.

On 20 December 2020, ZUE and RTI Germany signed the agreement with an annex whereby the loans of EUR 25,000 would be partially cancelled and the repayment of the remaining balance would be extended until 20 December 2021.

#### Remuneration of key management personnel

	Period ended 31-12-2020	Period ended 31-12-2019
Management Board	4,420	4,276
Supervisory Board	427	371
Proxy	603	500
<b>Total</b>	<b>5,450</b>	<b>5,147</b>

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

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



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

**Major pending court proceedings concerning liabilities:**

There are no pending court proceedings concerning liabilities.

**Major pending court proceedings concerning claims:**

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

On 29 September 2016, the Petitioner (PORR Polska Infrastructure; i.e. former BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) sued the Defendant (PKP Polskie Linie Kolejowe S.A.) for PLN 11.5m (out of which PLN 2.9m plus statutory interest was payable to ZUE) after additional works had been carried out and expenses had been incurred during the extended completion time. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POLiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

An expert opinion is being prepared. The date of the next trial has not been set.

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

On 30 December 2016, the consortium of:

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

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

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

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

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

On 11 March 2019, the Court delivered the partial judgment whereby it ordered that PKP Polskie Linie Kolejowe S.A. pay ZUE PLN 347 thousand plus statutory default interest from 21 December 2016 to the date of payment and dismissed ZUE's claim concerning the payment of PLN 283 thousand plus statutory interest from 21 December 2016. The Parties appealed against this judgment. The Petitioner appealed against the dismissal of the claim of PLN 283 thousand plus statutory interest and the Defendant appealed against the order to pay PLN 347 thousand plus statutory interest. The appeal hearing referring to the partial judgment was held on 13 February 2020. On 27 February 2020, the appeals were dismissed by the Court of Appeals and the partial judgment became final and binding. The date of the next trial was set as 8 April 2021.

#### **Court case relating to contractual claims**

The Group previously declared its intention to make contractual claims relating to railway projects in order to increase the amount of remuneration payable to the contractor for the performance of the railway contracts in case of any risks beyond the contractor's control. On 28 April 2020, the claim of approx. PLN 34.8m was lodged against PKP PLK S.A. with the District Court in Warsaw to increase/pay the remuneration for the performance of the following contract: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section." The case is pending. The Parties exchange the pleadings The Defendant (PKP PLK S.A.), represented by the General Counsel to the Republic of Poland, responded to the claim and applied for the dismissal thereof and the Plaintiff upheld the claim.

## **7.17. Tax settlements**

Tax settlements and other areas of activity may be inspected by the administrative authorities authorised to impose harsh fines and penalties. The applicable laws are unclear and inconsistent because there are no references to established regulations in Poland. Common differences 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 Group as a result of such inspections.

No significant or countable tax risks were recognised by the Group at 31 December 2020 or 31 December 2019.

## **7.18. Remuneration of key management personnel**

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

	<b>Term</b>	<b>Remuneration</b>	<b>Term</b>	<b>Remuneration</b>
<b>Management Board</b>				
Wiesław Nowak	01.2020-12.2020	1,490	01.2019-12.2019	1,460
Anna Mroczek	01.2020-12.2020	813	01.2019-12.2019	746
Jerzy Czeremuga	01.2020-12.2020	707	01.2019-12.2019	680
Maciej Nowak	01.2020-12.2020	720	01.2019-12.2019	710
Marcin Wiśniewski	01.2020-12.2020	690	01.2019-12.2019	680
<b>Proxy</b>				
Magdalena Lis	01.2020-12.2020	603	01.2019-12.2019	500
<b>Supervisory Board</b>				
Mariusz Szubra	01.2020-12.2020	67	01.2019-12.2019	39
Barbara Nowak	01.2020-12.2020	50	01.2019-12.2019	31
Bogusław Lipiński	01.2020-12.2020	50	01.2019-12.2019	31
Piotr Korzeniowski	01.2020-12.2020	50	01.2019-12.2019	31
Michał Lis	01.2020-12.2020	210	01.2019-12.2019	239

<b>Total</b>	<b>5,450</b>	<b>5,147</b>
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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) depending on the performance of individual members 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 similar benefits to any former members of the of the supervisory or managing personnel.

## 7.19. Liabilities incurred to purchase property, plant and equipment

Net liabilities incurred to purchase property, plant and equipment amounted as at 31 December 2020 to PLN 183 thousand.

## 7.20. Contingent assets and contingent liabilities

	<b>Balance at 31-12-2020</b>	<b>Balance at 31-12-2019</b>
Bonds	99,913	77,381
Guarantees	60	55
Promissory notes	822	1,772
<b>Total</b>	<b>100,795</b>	<b>79,208</b>

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

In addition, the Company received promissory notes from subcontractors to secure ZUE's claims against the subcontractors and the repayment of advances.

### Contingent liabilities

	<b>Balance at 31-12-2020</b>	<b>Balance at 31-12-2019</b>
Bonds	547,326	518,569
Guarantees	15,056	24,530
Promissory notes	333,682	407,825
Mortgages*	81,529	91,159
Pledges	171,161	22,016
<b>Total</b>	<b>1,148,754</b>	<b>1,064,099</b>

\* Change in the balance as at 31.12.2019 explained in item 8.2.2.

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

Contingent liabilities in the form of guarantees secure the bonds and credits provided to the Group companies 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., the insurance agreement with PZU S.A. and the loan agreement with ARP.

In the reporting period, the Court of Poznań considered the applications to remove the mortgage established for the benefit of the State Treasury and the mortgages established to secure the credit agreements between the subsidiaries and BNP Paribas Bank Polska S.A. Consequently, the mortgages were removed from the land and mortgage register for the real estate in Poznań.

Registered pledges have been established to secure the agreements entered into with BNP Paribas Bank Polska S.A., PEKAO S.A. and mBank S.A., and to secure the loan agreement entered into with ARP. The pledged assets include wagons, pile driver, maintenance train, engine, tamping machine and profiling machine.

Apart from the registered pledges, there is a financial pledge over the borrower's bank accounts to secure the agreements between the Company and mBank S.A.

## **7.21. Discontinued operations**

No operations were discontinued within the meaning of IFRS 5 in 2020 or the comparative period.

## **7.22. Revisions to estimates**

The following revisions to estimates occurred in the reporting period:

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:

Impairment of goodwill (note no. 7.6.)

Useful economic lives of non-current assets (note no. 8.2.11., note no. 8.2.13. and note no. 8.2.17.)

Loss allowances for receivables (note no. 4.1.)

Provisions (note no. 3.3.)

Measurement of long-term construction contracts (note no. 3.1.)

Deferred income tax (note no. 2.7.)

Contingent assets and contingent liabilities (note no. 7.20.)

Uncertainty over tax settlements (note no. 7.17.)

## **7.23. Influence of the coronavirus pandemic on the Group's activities**

### **Measures taken by the Group**

The Issuer has taken preventive measures to reduce the risk of infection among the Group's employees and associates by letting the staff work remotely, giving instructions on hygiene and precautions to its employees and subcontractors' employees, providing employees with protective equipment such as face masks or disinfectant agents, limiting the number of business meetings, giving comprehensive information on the activities aimed at reducing the risk of infection and measures to be taken in case of infection and limiting contacts with the employees who stayed in higher risk areas.

The Company reacts on an ongoing basis to the worsening pandemic situation in Poland. After the new restrictions had been announced by the Polish government on 10 October 2020 and on later dates, the Company considered the recommendations and extended the ability of its employees to work remotely or on a rotational basis where remote work is impossible. The Company also employed additional measures to keep its employees informed, monitor their health and provide them with protective equipment. The situation is constantly monitored.

These measures have been taken by the Company to ensure the safety of employees and collaborators and to continue operating activities.

### **Impact of the coronavirus pandemic on the Group's activity and financial standing in 2020**

The coronavirus epidemic in Poland and the related restrictions have an influence both on the performance of construction contracts and other areas of the Group's activity. Direct contacts with the representatives of investors and other entities involved in construction projects have been kept to a minimum and due precaution measures have been taken. Most of the contracts, arrangements and acceptances have continued remotely. The work has been organised to ensure the safety of people involved in the performance of construction contracts.

At the end of the reporting period or at the date of preparation of this report, there are no major disruptions to construction processes or the chain of supplies caused by the COVID-19 restrictions which could influence the Group's financial results. The situation is monitored on an ongoing basis.

The Management Board of ZUE believe there are no indicators of impairment or any reasons for the recognition of additional provisions in connection with the pandemic. There are no major changes to the scope of operating activities. The Group's predictions about the performance of concluded contracts enable it to establish the projections which confirm the recoverable amount of the Company's key assets.

### **Possible impact of the coronavirus pandemic on the Group's activity and financial standing**

The impact of the coronavirus pandemic on the Group's future situation or results cannot be estimated at the date of preparation of this report. The construction works are carried out by the Company without obstacles but the restrictions and changes in the economy continue and it is hard to predict when the situation will return to the way it was before the pandemic.

Below please find the factors which may influence the markets in which the Issuer operates and the Group's operations in the next quarters.

#### **Factors which may have a negative influence:**

- Limited supply of certain building materials caused by disruptions in the chains of supply;
- Increased prices of certain imported building materials caused by the weakening of PLN to EUR and USD rates;
- Temporary suspension of competitive tenders for new urban infrastructure contracts as a result of poorer financial condition of the cities caused by the imposed restrictions;
- Possible problems associated with the liquidity of certain enterprises (e.g. subcontractors);
- Possible extensions of deadlines for certain construction contracts caused by delays in the issue of certain administrative consents or approvals;

- Impediments relating to the absence or temporary exclusion of the Company's employees, subcontractors and consortium members; and
- Possible suspension of works under construction contracts.

Factors which may have a positive influence:

- Government decisions to continue the domestic transport infrastructure modernisation projects;
- Simplified procedures concerning, for instance, the acceptance of works and the circulation of documents in connection with railway contracts and quick payments for the works performed;
- Better supply of employees and lower financial expectations (growing unemployment in Poland).

## 7.24. Government grants

On 29 May 2020, Biuro Projektów Komunikacyjnych w Poznaniu signed the agreement for the additional funding for salaries and wages and the related social security premiums in case of the COVID-19-related decline in sales.

The subsidiary has received the funds in the total amount of PLN 380 thousand, complied with all the obligations under the agreement and recognized no contingent liabilities in connection with the grant.

## 8. Other notes to the financial statements

### 8.1. Use of International Financial Reporting Standards

#### 8.1.1. Statement of compliance

The consolidated financial statements of the Group for the year ended 31 December 2020 and the comparative information for the financial year ended 31 December 2019 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 2020:

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 3 "Business Combinations"** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 1 and IAS 8: "Definition of Material"** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 9, IAS 39 and IFRS 7 - "Interest Rate Benchmark Reform"** (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 16 "Leases"** – COVID-19-related lease modifications (effective for annual periods beginning on or after 1 June 2020).

The Group believes that the amendments to the standards or interpretations do not have any considerable influence on the consolidated financial statements of the Group.

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

There are no standards or interpretations published and endorsed by the EU but not yet effective at the date of approval of this report.

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

Amendments to the existing standards or the new standards published by the International Accounting Standards Board (IASB) not yet approved by the EU:

- **Amendments to IFRS 4 “Insurance Contracts”** – Deferral of effective date of IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16** - IBOR reform (effective for annual periods beginning on or after 1 January 2021 with earlier application permitted);
- **Amendments to IFRS 3 “Business Combinations”** – updated reference to Conceptual Framework (effective for reporting periods beginning after 1 January 2022 with earlier application permitted);
- **Amendments to IAS 16 “Property, Plant and Equipment”** – proceeds from selling items produced while bringing that asset to the condition necessary for it to be capable of operating (effective for annual periods beginning on or after 1 January 2022 with earlier application permitted);
- **Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”** – clarification of costs considered in assessing whether a contract is onerous (effective for annual periods beginning on or after 1 January 2022 with earlier application permitted);
- **Annual improvements 2018-2020** – the improvements clarify the guidelines for recognition and measurement: IFRS 1 “First-time Adoption of International Financial Reporting Standards,” IFRS 9 “Financial Instruments,” IAS 41 “Agriculture” and illustrative examples of IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2022 with earlier application permitted);
- **IFRS 17 “Insurance Contracts” and amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023 with earlier application permitted);
- **Amendments to IAS 1 “Presentation of Financial Statements”** – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023 with earlier application permitted);
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016), not endorsed;
- **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).

### 8.1.5. Changes in applied accounting principles

No changes to the applied accounting principles occurred in the reporting period.

## 8.2. Important accounting principles

### 8.2.1. Going concern

The consolidated financial statements have been prepared assuming that the Group will continue in operational existence for at least 12 months after the end of the reporting period.

The most important factor influencing the Group’s ability to continue in operational existence is the financial condition of the Parent Company. The key factors with an impact on the Group’s ability to continue its operations include liquidity, proper backlog and market situation.

In the 12 months ended 31 December 2020, the Group recognised the sales revenue of PLN 901.4m and the gross profit on sales of PLN 31.3m. As at 31 December 2020, the Group presented the total current assets of PLN 356.4m,

including trade and other receivables of PLN 149.2m and the cash of approx. PLN 23.5m. At the end of the reporting period, the Group had the backlog worth approx. PLN 1,498m and was in the process of winning new contracts.

Accordingly, the Management Board of the Parent Company state that there are no significant going concern risks at the date of preparation of this report, no economic circumstances have occurred and no strategic decisions have been made, and these financial statements have been prepared assuming that the Group will continue in operational existence in 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.

The additional inspection revealed a technical error in the note Contingent liabilities as at 31 December 2019.

The table below presents the effect of changes:

	Corrected	Approved	
	Balance at	Balance at	Effect of changes
	31-12-2019	31-12-2019	
Bonds	518,569	518,569	0
Guarantees	24,530	24,530	0
Promissory notes	407,825	407,825	0
Mortgages	91,159	30,000	61,159
Pledges	22,016	22,016	0
<b>Total</b>	<b>1,064,099</b>	<b>1,002,940</b>	<b>61,159</b>

### 8.2.3. Preparation basis

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

The accounting principles (policies) used in the preparation of these consolidated financial statements are consistent with the accounting principles (policies) used in the preparation of the consolidated financial statements of the Group for the financial year ended 31 December 2019.

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

### 8.2.4. Consolidation rules

#### Investments in subsidiaries

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

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



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

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

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

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

### **Investments in associates**

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

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

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

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

### **Loss of control**

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

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

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

## **Goodwill**

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

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

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

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

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

### **8.2.5. Segment reporting**

The Group's reporting is based on operating segments.

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

- Construction;
- Design; and
- Sales.

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

### **8.2.6. Recognition of revenue from long-term construction contracts**

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of goods or services to customers (contracting authorities) in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The Group's revenue:

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

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

## **Revenue from construction contracts**

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

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

The Group recognises 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 Group. Accordingly, the allocation of transaction price to performance obligation does not require any estimates.

### **Input method**

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

### **Zero-profit method**

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

### **Recognition of expected losses**

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

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

An input method has been selected based on the type of the Group'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.

### **8.2.7. Foreign currencies**

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

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

### **8.2.8. Borrowing costs**

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

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

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

### **8.2.9. Employee benefits**

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

Costs of wages and salaries include the wages and salaries under employment contracts entered into with individual employees. Costs of wages and salaries also include bonuses and incentive rewards paid according to the company's regulations.

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

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

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

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

Other employee benefits are paid under the law and the corporate regulations. The Group also covers the costs of trainings in occupational health and safety and private medical care for its employees.

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

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

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

#### **Current tax**

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

#### **Deferred tax**

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

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

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

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

### **Current and deferred tax for the year**

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

#### **8.2.11. Property, plant and equipment**

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

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

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

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

Freehold land is not depreciated.

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

Non-current assets and non-current assets under construction are tested for impairment if there are indications of impairment at least at the end of each reporting period. Rules governing the determining of impairment are set out in note 8.2.14. Effects of the impairment of non-current assets and non-current assets under construction are recognised in other operating expenses.

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.

#### **8.2.12. Investment property**

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

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

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

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

#### **8.2.13. Intangible assets**

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

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

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

<b>Item</b>	<b>Useful lives</b>
Licences for software	2 – 10 years
Leasehold	25 – 99 years

Intangible assets are tested for impairment if there are indications of impairment and any impairment is determined at the end of each reporting period. Rules governing the determining of impairment are set out in note 8.2.14. Effects of the impairment of intangible assets and their amortisation are carried to other operating expenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

### **8.2.17. Leases**

IFRS 16 provides 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 Group uses the definition of a lease and the related guidelines specified in IFRS 16 for all lease contracts regardless of whether the Group is a lessee or lessor under the contract.

Right-of-use assets are initially measured by the Group 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 Group;
- 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 Group 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 Group 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 Group'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 Group at amortised cost.

Remeasurement of lease liability is recognised by the Group 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 Group recognises any remaining amount as profit or loss.

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

The Group applies the same discount rates to the portfolio of leased cars and rentals. The Group 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 Group 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:

<b><u>Item</u></b>	<b><u>Useful lives</u></b>
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 Group 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.

#### **8.2.18. Inventories**

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

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

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

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

Inventory disbursement is recorded in accordance with the principles of specific identification and is recognised in the cost of sales. Write-downs 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.

#### **8.2.19. Trade and other receivables**

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

Trade and other receivables are classified by the Group 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 Group recognises allowances on the basis expected credit losses likely to occur over the life of an instrument at an amount equal to 12-month expected credit losses.

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

#### **8.2.20. Cash and cash equivalents**

Cash and short-term 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.

#### **8.2.21. Trade and other payables**

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

Trade and other payables are classified by the Group 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.

#### **8.2.22. Accruals**

Accruals include provisions for the costs of contracts.

In the course of performance of construction contracts, the Group 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 Group. In such cases, the Group 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 Group with a breakdown into particular contracts.

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

#### **8.2.23. Advance payments**

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

The Group 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 Group. Advance payments for performed contracts are settled during the contract performance as part of the ordinary course of the Group's operations.

#### 8.2.24. 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 Group 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 Group 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 Group at an amount equal to expected credit losses over the entire lifetime.

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

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

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

## Hedge accounting

No hedge accounting is applied by the Group.

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

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

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

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

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms a part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the 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 Group 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.

#### **8.2.26. Provisions**

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

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

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

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

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

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

#### **8.2.27. Government grants**

Government grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is the acquisition or production by the company of non-current assets are recognised in the statement of financial position as prepayments and accrued income and transferred to profit or loss on a systematic basis over the expected useful lives of the related assets.

Other government grants are recognised as income on a systematic basis over the period necessary to match them with the related costs which they were intended to compensate. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

Rules of transferring grants to non-current assets also apply in the case of non-current assets received for free.

### 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

As set out in items 8.2.11 and 8.2.13, the Group verifies the expected periods of 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 Group recognises loss allowances on the basis of expected credit losses likely to occur over the life of an instrument at an amount equal to 12-month expected credit losses.

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

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

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

#### **8.3.4. Provisions**

##### **Provisions for litigations**

Employees 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 consolidated financial statements 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.

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

##### **Provisions for warranty claims**

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

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

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

##### **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 consolidated statement of financial position as short-term provisions.

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

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

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



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

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

### **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 Group in the consolidated statement of financial position. The Group discloses information about a contingent liability in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

### **8.3.8. Uncertainty over tax settlements**

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

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

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

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

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

The Group 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 2021, the Company learnt about the conclusion by the other party of the contract between the Company and the City of Grudziądz – Zarząd Dróg Miejskich w Grudziądzu for the project named: “Reconstruction of the tramway track from the Wiejska Street to the OM Rząd tram terminus” as part of the following project: “Reconstruction of tram infrastructure to improve public transport in Grudziądz.” The Company informed about the selection of the Company’s offer as the most economically advantageous tender in the current report 33/2020. Contract net value: PLN 47.7m. Contract gross value: PLN 58.6m. Completion date: 31 October 2021. **(Current report 2/2021)**

On 3 February 2021, the Company learnt about the contract signed the Company and the City of Wrocław – Miejskie Przedsiębiorstwo Komunikacyjne sp. z o.o. for the project named: “Maintenance of tram tracks and switches in Wrocław, B region”. Contract net value: Approx. PLN 18.5m. Contract gross value: Approx. PLN 22.8m. Project completion date: between 3 February 2021 and 31 December 2023. **(Current report 3/2021)**

On 22 March 2021, the Company received the signed annex to premium multi-purpose credit line agreement entered into between the Company and BNP Paribas Bank Polska S.A. (BNP) whereby the credit limit granted to the Company was increased from PLN 30m to PLN 65m. On the same date, the Company received the signed annex to the bond line agreement with BNP whereby the line would be available until 21 March 2022. **(Current report 5/2021)**

## 10. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Management Board on 24 March 2021.

## 11. Signatures

The financial statements have been prepared by:

Ewa Bosak Chief Accounted

**Signatures of the management personnel:**

Wiesław Nowak                      Management Board President

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Anna Mroczek                      Management Board Vice-President

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Jerzy Czeremuga                      Management Board Vice-President

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Maciej Nowak                      Management Board Vice-President

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Marcin Wiśniewski                      Management Board Vice-President

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Cracow, 24 March 2021