



FINANCIAL STATEMENTS OF ZUE S.A.
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

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

Cracow, 1 March 2022

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Abbreviations and definitions:

ZUE, Company, Issuer, Parent Company	ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,757,520.75 paid up in full. Parent company of the ZUE Capital Group.
BPK Poznań	Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 5,866,600 paid up in full. Subsidiary of ZUE.
Railway gft	Railway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full. Subsidiary of ZUE.
RTI	Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 280,000 paid up in full. Subsidiary of ZUE.
RTI Germany	Railway Technology International Germany GmbH in liquidation with registered office in Görlitz, Germany, entered into the German Register of Entrepreneurs (<i>Handelsregister B, HRB</i>) maintained by the District Court in Dresden (<i>Amtsgericht Dresden</i>) under entry number HRB 36690. Share capital of EUR 25,000 paid up in full. The company was removed from the register on 14 July 2021. Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
ZUE Group, Group, Capital Group	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft and RTI.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Uniform text, Journal of Laws of 2020, item 1526).

Share capital details as at 31 December 2021.

Selected financial data of ZUE S.A.

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

	31-12-2021	31-12-2021	31-12-2020	31-12-2020
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	175,213	38,095	167,782	36,357
Current assets	373,415	81,188	331,944	71,930
Assets held for sale	3,544	771	3,544	768
Total assets	552,172	120,054	503,270	109,055
Equity	165,670	36,020	153,596	33,283
Non-current liabilities	55,325	12,029	50,237	10,886
Current liabilities	330,811	71,925	299,071	64,807
Lease liabilities associated with assets held for sale	366	80	366	79
Total equity and liabilities	552,172	120,054	503,270	109,055

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

	2021	2021	2020	2020
	PLN '000	EUR '000	PLN '000	EUR '000
Sales revenue	781,383	170,701	849,649	189,900
Cost of sales	751,471	164,166	821,626	183,636
Gross profit (loss) on sales	29,912	6,535	28,023	6,264
Operating profit (loss)	13,710	2,995	9,782	2,186
Gross profit (loss)	15,437	3,372	10,035	2,243
Net profit (loss) from continuing operations	12,141	2,652	4,362	975
Total comprehensive income	12,074	2,638	4,305	962

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

	2021	2021	2020	2020
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	111,809	24,426	11,520	2,575
Cash flows from investing activities	-5,792	-1,265	-7,632	-1,706
Cash flows from financing activities	-19,650	-4,293	-11,643	-2,602
Total net cash flows	86,367	18,868	-7,755	-1,733
Cash at the beginning of the period	20,230	4,384	27,979	6,570
Cash at the end of the period	106,612	23,180	20,230	4,384

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	31-12-2021	31-12-2020	31-12-2019
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.5994	4.6148	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	4.5775	4.4742	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	4.5994	4.6148	4.2585

Statement of comprehensive income

Continuing operations	Note no.	2021	2020
Sales revenue	2.1.	781,383	849,649
Cost of sales	2.2.	751,471	821,626
Gross profit (loss) on sales		29,912	28,023
General and administrative expenses	2.2.	20,377	19,378
Other operating income	2.3.	5,478	2,926
Other operating expenses	2.4.	1,303	1,789
Operating profit (loss)		13,710	9,782
Financial income	2.5.	2,778	1,705
Financial expenses	2.6.	1,051	1,452
Pre-tax profit (loss)		15,437	10,035
Corporate income tax	2.7.	3,296	5,673
Net profit (loss) from continuing operations		12,141	4,362
Net profit (loss)		12,141	4,362
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		-67	-57
Actuarial gains (losses) relating to specific benefit schemes	2.8	-67	-57
Total other net comprehensive income		-67	-57
Total comprehensive income		12,074	4,305
Number of shares		23,030,083	23,030,083
Net profit (loss) per share (PLN) (basic and diluted)		0.53	0.19
Total comprehensive income (loss) per share (PLN)		0.52	0.19

Statement of financial position

ASSETS	Note no.	Restated	
		31-12-2021	31-12-2020
Non-current assets			
Property, plant and equipment	7.1.	64,623	63,380
Investment property	7.2.	6,145	6,497
Intangible assets	7.3.	2,697	2,047
Right-of-use assets	7.4.	41,356	41,675
Goodwill	7.6.	31,172	31,172
Investments in subordinates	7.7.	221	221
Retentions on construction contracts	3.2.	7,393	8,472
Deferred tax assets	2.7.	21,606	14,296
Advanced loans	7.10.	0	22
Total non-current assets		175,213	167,782
Current assets			
Inventories	7.11.	30,359	22,110
Trade and other receivables	4.1.	126,699	141,335
Measurement of long-term construction contracts	3.1.	98,329	138,371
Retentions on construction contracts	3.2.	3,387	4,042
Advance payments	3.5.	3,994	3,692
Current tax assets	2.7.	0	0
Advanced loans	7.10.	3,572	1,702
Other assets	7.9.	463	462
Cash and cash equivalents	6.5.	106,612	20,230
Current assets		373,415	331,944
Assets held for sale	7.5.	3,544	3,544
Total current assets		376,959	335,488
Total assets		552,172	503,270

Restated

EQUITY AND LIABILITIES	Note no.	31-12-2021	31-12-2020
Equity			
Share capital	5.1.	5,758	5,758
Share premium account	5.3.	93,837	93,837
Treasury shares	5.4.	-2,690	-2,690
Retained earnings	5.5.	68,765	56,691
Total equity		165,670	153,596
Non-current liabilities			
Long-term loans and bank credits	6.1.	0	4,443
Long-term lease liabilities	6.2.	14,178	11,925
Retentions on construction contracts	3.2.	23,231	17,841
Liabilities under employee benefits	7.13.	1,789	1,358
Long-term provisions	3.3.	16,127	14,670
Total non-current liabilities		55,325	50,237
Current liabilities			
Trade and other payables	4.2.	122,266	127,583
Accruals	3.6.	66,463	61,490
Measurement of long-term construction contracts	3.1.	49,426	3,310
Retentions on construction contracts	3.2.	16,628	18,911
Advance payments	3.5.	6,737	28,741
Short-term loans and bank credits	6.1.	4,443	8,890
Short-term lease liabilities	6.2.	6,244	9,051
Other financial liabilities	7.12.	36	36
Liabilities under employee benefits	7.13.	40,220	31,188
Current tax liabilities	2.7.	1,098	0
Short-term provisions	3.3.	17,250	9,871
Total current liabilities		330,811	299,071
Lease liabilities associated with assets held for sale		366	366
Total liabilities		386,502	349,674
Total equity and liabilities		552,172	503,270

Statement of changes in equity

	Share capital	Share premium account	Treasury shares	Retained earnings	Total equity
Balance at 1 January 2021	5,758	93,837	-2,690	56,691	153,596
Payment of dividend	0	0	0	0	0
Issue of shares	0	0	0	0	0
Issue costs	0	0	0	0	0
Buy-back of shares	0	0	0	0	0
Profit (loss)	0	0	0	12,141	12,141
Other net comprehensive income	0	0	0	-67	-67
Balance at 31 December 2021	5,758	93,837	-2,690	68,765	165,670

	Share capital	Share premium account	Treasury shares	Retained earnings	Total
Balance at 1 January 2020	5,758	93,837	-2,690	52,386	149,291
Payment of dividend	0	0	0	0	0
Issue of shares	0	0	0	0	0
Issue costs	0	0	0	0	0
Buy-back of shares	0	0	0	0	0
Profit (loss)	0	0	0	4,362	4,362
Other net comprehensive income	0	0	0	-57	-57
Balance at 31 December 2020	5,758	93,837	-2,690	56,691	153,596

Statement of cash flows

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	15,437	10,035
Adjustments for:		
Depreciation and amortisation	12,660	13,137
Foreign exchange gains / (losses)	-15	-6
Interest and share in profit (dividends)	759	1,310
Gain / (loss) on disposal of investments	-504	-1,459
Operating profit (loss) before changes in working capital	28,337	23,017
Change in receivables and retentions on construction contracts	16,368	33,723
Change in inventories	-8,249	3,005
Change in provisions and liabilities under employee benefits	18,192	-137
Change in payables and retentions on construction contracts	-2,289	-23,418
Change in measurement of construction contracts	86,158	-40,021
Change in accruals	4,973	7,449
Change in advance payments	-22,306	7,552
Change in other assets	-1	352
Other adjustments	94	0
Income tax paid / (tax refund)	-9,468	-2
NET CASH FROM OPERATING ACTIVITIES	111,809	11,520
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	1,925	1,298
Purchase of property, plant and equipment and intangible assets	-6,008	-7,369
Advanced loans	-2,000	-1,690
Repayment of advanced loans	185	95
Interest received	106	34
NET CASH FROM INVESTING ACTIVITIES	-5,792	-7,632
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	4,109	20,303
Repayment of loans and bank credits	-12,290	-18,489
Decrease in lease liabilities	-10,479	-12,184
Lease interest paid	-775	-717
Other interest paid	-215	-556
NET CASH FLOWS FROM FINANCING ACTIVITIES	-19,650	-11,643
TOTAL NET CASH FLOWS	86,367	-7,755
Net foreign exchange differences	15	6
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	20,230	27,979
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:	106,612	20,230
- of limited availability	15,153	3,753

Notes to the financial statements as at 31 December 2021

1. General information

1.1. Information about the Company

The Company has been incorporated on 1 June 1991 and operated in its current legal form since 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.

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

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

Management Board:

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

Supervisory Board:

Mariusz Szubra	Supervisory Board Chairperson
Barbara Nowak	Supervisory Board Vice-Chairperson
Agnieszka Klimas	Supervisory Board Member
Piotr Korzeniowski	Supervisory Board Member
Bogusław Lipiński	Supervisory Board Member

Audit Committee:

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

As at 31 December 2021, Mr. Michał Lis was a member of the Supervisory Board. On 12 January 2022, the Extraordinary General Meeting of ZUE resolved to dismiss Mr. Michał Lis and appoint Ms. Agnieszka Klimas to the Supervisory Board.

Ms. Agnieszka Klimas, 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. Activities of ZUE

The core business of ZUE is the execution, as a general contractor or consortium leader or member or subcontractor, of multi-discipline projects including:

- ✓ **Urban infrastructure**, including:
 - ❖ Construction and upgrade of tram tracks, tram and trolleybus traction networks, traction substations, street lighting, cable lines, street traffic signalling, 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.

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.

1.3. Functional and reporting currency

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

2. Notes to the statement of comprehensive income

2.1. Revenue

	2021	2020
Revenue from construction contracts	756,660	829,982
Revenue from the provision of services	11,680	15,412
Revenue from the sale of goods, raw and other materials	13,043	4,255
Total	781,383	849,649

Revenue from construction activity is recognised by the Company 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 Company operated in the territory of Poland in the reporting period.

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

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

Concentration of revenue exceeding 10% of total sales revenue

	2021	2020
Counterparty A	626,208	642,516

PKP Polskie Linie Kolejowe S.A. was ZUE's major customer in 2021. The company's share in ZUE's total sales revenue in 2021 was about 80%.

2.2. Operating expenses

	2021	2020
Change in products	-561	407
Depreciation and amortization	12,660	13,137
Consumption of materials and energy, including:	165,796	179,934
- consumption of materials	158,154	173,432
- consumption of energy	7,642	6,502

Contracted services	445,233	512,725
Costs of employee benefits	121,413	111,477
Taxes and charges	1,694	1,609
Other expenses	19,105	18,226
Value of goods and materials sold	6,508	3,489
Total	771,848	841,004

	2021	2020
Cost of sales	751,471	821,626
General and administrative expenses	20,377	19,378
Total	771,848	841,004

Depreciation and amortisation

	2021	2020
Depreciation of property, plant and equipment	8,848	8,261
Amortisation of rights to use assets	3,151	4,349
Amortisation of intangible assets	282	81
Depreciation of investments in real estate	379	446
Total	12,660	13,137

2.3. Other operating income

	2021	2020
Gain on disposal of assets	626	443
Gain on disposal of non-current assets	626	443
Other operating income	4,852	2,483
Damages and penalties	3,489	119
Release of allowances for receivables	603	984
Refund of the costs of court proceedings	62	124
Substitute performance	415	181
Release of write-downs of inventories	190	6
Release of write-downs of investment property	0	1,000
Other	93	69
Total	5,478	2,926

The amount of PLN 2.9m was recognised under the item "Damages and penalties." A subcontractor was charged by ZUE with the abovementioned amount for their failure to perform or duly perform the contract and to meet the deadlines.

2.4. Other operating expenses

	2021	2020
Loss on disposal of assets:	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses:	1,303	1,789
Donations	34	6
Allowances for receivables	329	1,044
Costs of litigations	493	557
Substitute performance	415	181
Other	32	1
Total	1,303	1,789

2.5. Financial income

	2021	2020
Interest income:	305	491
Interest on bank deposits	87	126
Interest on loans	80	26
Interest on receivables	138	339
Other financial income:	2,473	1,214
Foreign exchange gains	10	0
Discount of long-term items	2,140	895
Financial guarantees	276	307
Other	47	12
Total	2,778	1,705

2.6. Financial expenses

	2021	2020
Interest expenses:	1,027	1,318
Interest on credits	4	52
Interest on loans	211	503
Interest on leases	777	716
Interest on trade and other payables	35	47
Other financial expenses:	24	134
Foreign exchange losses	0	52
Other	24	82
Total	1,051	1,452

2.7. Corporate income tax

Corporate income tax recognised in statement of comprehensive income

	2021	2020
Current income tax	10,566	2
Deferred tax	-7,270	5,671
Total tax expense (income)	3,296	5,673

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

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

Current income tax

	2021	2020
Gross profit (loss)	15,437	10,035
Difference between gross profit (loss) and income tax base:	40,172	-12,980

- differences between gross profit and taxable income resulting from expenses that are not tax-deductible under tax regulations and revenue not classified as revenue under tax regulations and additional expenses and revenue	82,375	-12,980
- other differences (including loss brought forward)	-42,203	0
Income/Loss	55,609	-2,945
Income tax base	55,609	12
Income tax at the applicable rate of 19%	10,566	2
Current income tax	10,566	2

Income tax according to effective interest rate

	2021	2020
Gross profit (loss)	15,437	10,035
Income tax at the applicable rate of 19%	2,933	1,907
Effect of tax recognition of:	7,633	-2,466
- Use of tax losses brought forward	8,018	0
- Expenses not classified as tax-deductible under tax regulations	8,948	5,324
- Revenue not classified as revenue under tax regulations	-15,714	8,127
- Tax-deductible expenses not classified as balance sheet expenses	9,186	1,346
- Tax revenue not classified as balance sheet revenue	175	1,683
Revaluation of deferred tax assets (current year loss)	0	561
Deferred tax	-7,270	5,671
Income tax according to effective tax rate	3,296	5,673
Effective tax rate	21%	57%

Current tax assets and liabilities

	31-12-2021	31-12-2020
Current tax assets		
Tax refundable	0	0
Current tax liabilities		
Tax payable	1,098	0

Deferred tax balance

	2021	2020
Deferred tax balance at the beginning of the period	14,296	19,954
Temporary differences relating to deferred tax assets:	50,800	41,651
Provisions for expenses and accruals	24,373	20,536
Discount of receivables	175	126
Operating lease liabilities	3,028	2,121
Write-downs	626	717
Bonds and insurances accounted for over time	2,651	2,114
Tax work in progress	10,247	15,089
Measurement of long-term contracts	9,391	629
Other	309	319
Temporary differences relating to deferred tax liabilities:	33,277	39,313
Measurement of long-term contracts	18,682	26,291
Difference between the carrying and tax amount of property, plant and equipment and intangible assets	13,459	12,336
Discount of payables	1,136	680
Other	0	6

Unused tax losses and other tax credits carried forward:	4,083	11,958
Tax losses	4,083	11,958
Total temporary differences relating to deferred tax assets:	54,883	53,609
Total temporary differences relating to deferred tax liabilities:	33,277	39,313
Deferred tax balance at the end of the period	21,606	14,296
Change in deferred tax, including:	7,310	-5,658
- recognised in income	7,270	-5,671
- recognised in equity	40	13

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

2.8. Items of other comprehensive income

Items of other comprehensive income:

	2021	2020
Actuarial gains (losses) relating to specific benefit schemes	-107	-70
Deferred tax	40	13
Amount recognised in other comprehensive income	-67	-57

2.9. Operating segments

ZUE's reporting is based on operating segments. The Company analyses the areas of activity based on the aggregation rules under IFRS 8.12 and identifies one aggregate reporting segment, namely construction activity. The Company is organised and managed within the abovementioned segment. The Company applies a uniform accounting policy to all operating areas within the segment of engineering construction and assembly services.

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

3.1. Construction contracts

	31-12-2021	31-12-2020
Assets (selected items)	143,462	154,577
- Measurement of long-term construction contracts	98,329	138,371
- Advance payments made in connection with performed contracts	3,994	3,692
- Retentions on construction contracts retained by customers	10,780	12,514
- Inventories	30,359	22,110
Liabilities (selected items)	194,402	153,610
- Measurement of long-term construction contracts	49,426	3,310
- Provisions for contract costs	65,003	60,266
- Advance payments received in connection with performed contracts	6,737	28,741
- Retentions on construction contracts retained for suppliers	39,859	36,752
- Provisions for warranty claims	18,568	16,366
- Provisions for expected losses on contracts	14,809	8,175

3.2. Retentions on construction contracts

	31-12-2021	31-12-2020
Retained by customers – to be repaid after 12 months	7,393	8,472
Retained by customers – to be repaid within 12 months	3,387	4,042
Total retentions on construction contracts retained by customers	10,780	12,514
Retained for suppliers – to be repaid after 12 months	23,231	17,841
Retained for suppliers – to be repaid within 12 months	16,628	18,911
Total retentions on construction contracts retained for suppliers	39,859	36,752

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

Discount of long-term retentions

	31-12-2021	31-12-2020
Discount of long-term retentions on construction contracts retained by customers	921	661
Discount of long-term retentions on construction contracts retained for suppliers	3,096	1,892

	2021	2020
Financial income from the discount on retentions	944	633
Deferred tax	179	120
Net effect on the statement of comprehensive income	765	513

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

	31-12-2021	31-12-2020
Past due retentions on construction contracts:		
– up to 1 month	0	0
– 1 - 3 months	0	0
– 3 - 6 months	0	0
– 6 months - 1 year	0	0
– over 1 year	11	11
Total past due retentions on construction contracts (gross)	11	11
Write-downs	-11	-11
Total past due retentions on construction contracts (net)	0	0

Discount rate

The effective interest rate in 2021 used for the discounting of retentions was 3% (2.1% in 2020).

3.3. Provisions

Provisions	01-01-2021	Created	Used	Released	Reclassified	31-12-2021	Item
Long-term provisions:	16,028	3,158	19	44	-1,207	17,916	
Provisions for employee benefits	1,358	475	0	44	0	1,789	Liabilities under employee benefits (long-term)
Provisions for warranty claims	14,670	2,683	19	0	-1,207	16,127	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	31,567	39,044	18,191	5,987	1,207	47,640	

Provisions for employee benefits	21,696	27,647	17,958	995	0	30,390	Liabilities under employee benefits (short-term)
Provisions for warranty claims	1,696	100	233	329	1,207	2,441	Short-term provisions
Provision for loss on contracts	8,175	11,297	0	4,663	0	14,809	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	47,595	42,202	18,210	6,031	0	65,556	

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

The release of provisions for 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.

Comparative information:

Provisions	01-01-2020	Created	Used	Released	Reclassified	31-12-2020	Item
Long-term provisions:	13,276	4,038	272	0	-1,014	16,028	
Provisions for employee benefits	1,200	158	0	0	0	1,358	Liabilities under employee benefits (long-term)
Provisions for warranty claims	12,076	3,880	272	0	-1,014	14,670	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	34,638	27,907	15,937	16,055	1,014	31,567	
Provisions for employee benefits	18,429	20,891	15,834	1,790	0	21,696	Liabilities under employee benefits (short-term)
Provisions for warranty claims	1,699	55	103	969	1,014	1,696	Short-term provisions
Provision for loss on contracts	14,510	6,961	0	13,296	0	8,175	Short-term provisions
Other provisions	0	0	0	0	0	0	Short-term provisions
Total provisions:	47,914	31,945	16,209	16,055	0	47,595	

3.4. Allowances

Change in allowances

Allowances	01-01-2021	Created	Used	Released	31-12-2021
Allowances:	24,935	8,646	4,797	16	28,768
Write-downs of property, plant and equipment	0	0	0	0	0
Write-downs of right-of-use assets	0	0	0	0	0
Write-downs of investment property	770	0	0	0	770
Write-downs of inventories	190	0	190	0	0
Allowances for trade receivables in connection with the increase of credit risk	23,834	8,343	4,607	13	27,557
Allowances for trade receivables – initial for expected credit losses	130	300	0	0	430
Write-downs of retentions	11	3	0	3	11
Total:	24,935	8,646	4,797	16	28,768

Allowances for trade receivables of PLN 28m include:

- ❖ Debit notes issued by the Company for penalties, damages and substitute performance of PLN 26m. The amount is for presentation purposes only because the notes are not the Company's revenue at the date of issue. The major items include the notes of PLN 21m issued in past years.
- ❖ Receivables under court and enforcement cases of PLN 1m.
- ❖ Doubtful debt of PLN 1m (including PLN 0.9m of prior years).

Change in loss allowances on receivables

Change in allowances for trade receivables influencing the profit or loss includes the release of allowances of PLN 603 thousand and the creation of allowances of PLN 329 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from the debit notes issued by the Company for the penalties and damages that are not the Company's revenue at the date of issue.

Comparative information:

Allowances	01-01-2020	Created	Used	Released	31-12-2020
Allowances:	19,912	7,654	1,414	1,217	24,935
Write-downs of property, plant and equipment	0	0	0	0	0
Write-downs of right-of-use assets	0	0	0	0	0
Write-downs of investment property	1,770	0	0	1,000	770
Write-downs of inventories	196	0	6	0	190
Allowances for trade receivables in connection with the increase of credit risk	17,805	7,654	1,408	217	23,834
Allowances for trade receivables – initial for expected credit losses	130	0	0	0	130
Write-downs of retentions	11	0	0	0	11
Total:	19,912	7,654	1,414	1,217	24,935

3.5. Advance payments

	31-12-2021	31-12-2020
Advance payments made in connection with performed contracts	3,994	3,692
Other advance payments	43	43
Write-downs of advance payments	-43	-43
Total	3,994	3,692

	31-12-2021	31-12-2020
Advance payments received in connection with performed contracts	6,737	28,741
Total	6,737	28,741

3.6. Accruals

	31-12-2021	31-12-2020
Provisions for contract costs	65,003	60,266
Other accruals	1,460	1,224
Total	66,463	61,490

4. Trade and other receivables and payables

4.1. Trade and other receivables

	31-12-2021	31-12-2020
Trade receivables	150,544	161,016
Allowances for trade receivables in connection with the increase of credit risk	-27,557	-23,834
Allowance for trade receivables – initial for expected credit losses	-430	-130
Other receivables	4,142	4,283
Total trade and other receivables	126,699	141,335

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

Ageing analysis of trade receivables

	31-12-2021	31-12-2020
Not past due receivables	120,691	136,488
Receivables that are past due but not impaired	2,296	694
1-30 days	1,500	148
31-60 days	11	208
61-90 days	1	4
91-180 days	3	138
181-360 days	321	196
360 + days	460	0
Past due receivables for which allowances were made	27,557	23,834
1-30 days	231	41
31-60 days	1	1,052
61-90 days	49	1,151
91-180 days	165	1,801
181-360 days	4,036	3,679
360 + days	23,075	16,110
Total trade receivables (gross)	150,544	161,016
Allowances for trade receivables	-27,557	-23,834
Total trade receivables (net)	122,987	137,182

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

	31-12-2021	31-12-2020
Counterparty A	99,440	109,388

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

4.2. Trade and other payables

	31-12-2021	31-12-2020
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Trade payables	105,396	124,687
Liabilities to the state budget other than corporate income tax	16,638	2,680
Other payables	232	216
Total trade and other payables	122,266	127,583

Ageing analysis of trade payables

	31-12-2021	31-12-2020
Not past due payables	104,830	121,115
Past due payables	566	3,572
1-30 days	379	2,824
31-60 days	40	185
61-90 days	0	0
91-180 days	1	0
181-360 days	0	193
360 + days	146	370
Total trade payables	105,396	124,687

5. Equity

5.1. Share capital

At 31 December 2021, the amount of the registered share capital disclosed in the financial statements was PLN 5,757,520.75.

Share capital as at 1 March 2022

(PLN)

Class/issue	Type of shares	Number of shares	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
Total		23,030,083	5,757,520.75		

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

At 31 December 2021, the share capital structure was the same as at 1 March 2022.

5.2. Profit (loss) per share

(PLN)

	2021	2020
Basic profit (loss) per share	0.53	0.19
Diluted profit (loss) per share	0.53	0.19

Basic profit (loss) per share

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

	(PLN)	
	2021	2020
Profit (loss) per share for the financial year	0.53	0.19
Total profit (loss) used in the calculation of basic profit per share	12,140,106.47	4,361,675.04
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

	2021	2020
Balance at the beginning of the year	93,837	93,837
Share issue	0	0
Issue costs	0	0
Balance at the end of the year	93,837	93,837

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

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

In 2013, the Company launched a new issue of class C shares. The *agio* generated by the Company on 6 December 2013 was PLN 9m. The costs of class C shares issue in 2013 amounted to PLN 0.5m. The Company did not launch any new issue of shares in the years 2014-2021.

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

	2021	2020
Balance at the beginning of the year	56,691	52,386
Net profit distribution	4,362	3,135
Reserve funds	4,362	3,135
Capital reserve	0	0
Coverage of loss of brought forward	0	0
Profit (loss) of the current year	12,141	4,362
Other net comprehensive income	-67	-57
Payment of dividend for the prior year	0	0
Balance at the end of the year	68,765	56,691

	31-12-2021	31-12-2020
Reserve funds (without share premium account)	37,498	33,136

Capital reserve	0	0
Capital reserve associated with comprehensive income	-450	-383
Undistributed profit (loss) brought forward	0	0
Profit (loss) brought forward relating to the settlement of revaluation capital	2,336	2,679
Profit (loss) of the current year	12,141	4,362
Effects of the implementation of IFRS at ZUE	451	451
Revaluation capital	16,789	16,446
Retained earnings	68,765	56,691

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

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

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

On 22 June 2021, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2020 to reserve funds.

6. Debt and management of capital and liquidity

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

In the reporting period, the Company used own resources, loans and credit limits to finance day-to-day operations. At 31 December 2021, the Company could use overdraft and working capital credit limits in the total amount of PLN 38,900 thousand. The bond limits provided by banks and insurance companies amounted to PLN 284,017 thousand.

6.1. Loans and bank credits

	31-12-2021	31-12-2020
Long-term	0	4,443
Bank credits	0	0
Loans received	0	4,443
Short-term	4,443	8,890
Bank credits	0	0
Loans received	4,443	8,890
Total	4,443	13,333

Summary of loan and credit agreements

Balance at 31 December 2021

No.	Bank	Description	Principal/limit according to the agreement as at 31-12-2021	Amount of available loans and credits as at 31-12-2021	Use at as 31-12-2021	Interest	Repayment date
1	mBank S.A.	Overdraft	10,000	10,000	0	O/N WIBOR + margin	July 2022
2	mBank S.A. (i)	Master agreement	25,000		100	1M WIBOR + margin	May 2022
	including:	submit for bonds	25,000	24,900	100		
		non-revolving working capital credit	25,000	24,900	0		

3	Agencja Rozwoju Przemysłu S.A.	Loan agreement	20,000	0	4 443	1M WIBOR + margin	June 2022
4	BNP Paribas Bank Polska SA	Premium multipurpose line of credit agreement	65,000		0	1M WIBOR + margin	July 2022
	including:	submit for bonds	65,000	65,000	0		
		Overdraft	4,000	4,000	0		
	Total amount of available loans and credits			38,900			
	Total debt under loans and credits				4,443		
	Total use for bonds				100		

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

Types of security and liabilities under loan and credit agreements:

1. **Overdraft:**
 - a) Financial pledge on cash kept on customer's bank accounts maintained by the Bank;
 - b) Registered pledge on non-current assets – machinery and equipment owned by the Company;
 - c) Statement on submission to enforcement;
 - d) Assignment of rights under insurance policy.
2. **Master Agreement:**
 - a) Contractual mortgage up to PLN 35,420 thousand on the land in Cracow;
 - b) Security deposit established each time for the bonds expiring after 36 months;
 - c) Financial pledge on cash kept on customer's bank accounts maintained by the Bank;
 - d) Registered pledge on non-current assets – machinery and equipment owned by the Company;
 - e) Statement on submission to enforcement;
 - f) 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 with declaration;
 - 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 52m.

The following changes to certain credit agreements signed by ZUE occurred in the reporting period:

- mBank – Master agreement (item 2) – on 3 March 2021, the Company repaid the credit granted on 10 June 2020 before the deadline specified in the schedule.
- BNP Paribas – Premium multi-purpose line of credit agreement (item 4) – on 22 March 2021, the Company received a signed annex to the premium multi-purpose line of credit agreement entered into with BNP Paribas S.A. Under the annex, the limit granted to the Company was raised to PLN 65m and the security was changed accordingly. The tenor did not change.
- mBank – Master agreement (item 2) – on 31 May 2021, an annex was signed by the Company whereby the maturity date was extended by one year.
- mBank – Overdraft (item 1) – on 6 July 2021, the Company signed an annex whereby the repayment date was extended by one year.

Comparative information:

No.	Bank	Description	Principal/limit according to the agreement as at 31-12-2020	Amount of available loans and 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:	submit for bonds	21,600	21,600	0		
		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 SA	Premium multipurpose line of credit agreement	30,000			1M WIBOR + margin	July 2022
	including:	submit for bonds	30,000	3,907	26 093		
		Overdraft	3,907	3,907	0		
	Total amount of available loans and credits			17,307			
	Total debt under loans and credits				13,333		
	Total use for bonds				26,093		

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

6.2. Leases

Lease liabilities

	31-12-2021	31-12-2020
Long-term lease liabilities	14,178	11,925
Short-term lease liabilities	6,244	9,051
Lease liabilities associated with assets held for sale	366	366
Total	20,788	21,342

In the reporting period, the Company signed the leases with the total amount of PLN 9,954 thousand and purchased the leased assets with the total net value of PLN 7,119 thousand.

	Minimum lease payments		Present value of minimum lease payments	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Not later than one year	6,939	9,594	6,244	9,051
Later than one year and not later than five years	12,348	8,523	7,568	7,044
Later than five years	23,018	19,215	6,976	5,247
Less: future finance charges	-21,517	-15,990	0	0
Present value of minimum lease payments	20,788	21,342	20,788	21,342

General terms of lease

The leases signed by the Company mainly concern vehicles. The term of the leases concerning manufacturing equipment and vehicles is from three to six years. The Company has an option to purchase the equipment at the end of the lease for a price equal to their residual value. The Company's liabilities under finance leases are secured by the lessor's title to the leased assets and a blank promissory note. The leases concerning land and buildings are usually concluded for the term of the contract. The leasehold land is used on the basis of administrative decisions and except for the investment property in Kościelisko where the term of lease is 39 years, leases have been concluded for 89 years.

Short-term and low value leases

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 4,031 thousand in 2021 and to PLN 4,236 thousand in 2020.

Lease details presented by the Company in the following notes:

No.	Note	2021	2020
2.2.	Depreciation and amortisation	3,151	4,349
2.6.	Financial expenses – interest on leases	777	716

No.	Note	31-12-2021	31-12-2020
6.2.	Leases – lease liabilities	20,422	20,976
6.2.	Lease liabilities associated with assets held for sale	366	366
7.4.	Right-of-use assets	41,356	41,675

6.3. Management of capital

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

	31-12-2021	31-12-2020
Long- and short-term loans and bank credits	4,443	13,333
Long- and short-term lease liabilities	20,422	20,976
Lease liabilities associated with assets held for sale	366	366
Long- and short-term other financial liabilities	36	36
Total financial liabilities	25,267	34,711
Cash and cash equivalents	106,612	20,230
Net debt	-81,345	14,481
Equity	165,670	153,596
Net debt to equity ratio	-49.10%	9.43%

Negative net debt is due to the fact that total financial liabilities at the end of 2021 fell below the amount of cash at the Company.

The Company 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

Non-cash flows

Item	01-01-2021	Cash flows (change)	Change on gain/loss of control	Change on foreign exchange gains/losses	Change on conclusion of new leases	Reclassification	31-12-2021
Long-term loans and bank credits	4,443	-4,443	0	0	0	0	0

Long-term lease liabilities	11,925	0	0	0	6,543	-4,290	14,178
Long-term other financial liabilities	0	0	0	0	0	0	0
Short-term loans and bank credits	8,890	-4,447	0	0	0	0	4,443
Short-term lease liabilities	9,051	-10,479	0	0	3,382	4,290	6,244
Lease liabilities associated with assets held for sale	366	0	0	0	0	0	366
Short-term other financial liabilities	36	0	0	0	0	0	36
Total financing liabilities	34,711	-19,369	0	0	9,925	0	25,267

6.4. Financial risk management

The main financial instruments used by the Company 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 Company's operations.

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

Foreign exchange risk

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

Foreign exchange risk – sensitivity to changes

To analyse the sensitivity to exchange rate changes, the reasonably possible change in foreign exchange rates was assessed, on the basis of historical changes and the Company's experience and knowledge of financial markets, at -5% / +5% for EUR/PLN exchange rate as at 31 December 2021.

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).

Sensitivity to changes as at 31 December 2021

	Currency	Nominal value at the end of the reporting period	Depreciation of PLN	Appreciation of other currencies
			+5%	-5%
Cash	EUR	253	13	-13
	USD	158	8	-8
	HRK	1	0	0
	BGN	2	0	0
Trade and other payables	EUR	3,607	-180	180
Trade and other receivables	EUR	0	0	0
Gross effect on profit or loss of the period and net assets			-159	159
Deferred tax			30	-30
Total			-129	129

The Company had no hedging currency futures as at 31 December 2021 or 31 December 2020.

Interest rate risk

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

Interest rate risk – sensitivity to changes

To analyse the sensitivity to interest rate changes, the reasonably possible change in interest rates was assessed, on the basis of historical changes and the Company's experience and knowledge of financial markets, at -1 / +1 pp at 31 December 2021. 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 2021.

	Amount at the end of the reporting period	31-12-2021	
		+100 bp	-100 bp
Long-term retentions on construction contracts (discount):			
– recognised in assets (present value)	7,393	-273	289
– recognised in liabilities (present value)	23,231	904	-964
Cash at banks	106,612	1,066	-1,066
Advanced loans	3,572	36	-36
Bank credits and loans	4,443	-44	44
Lease liabilities	20,422	-204	204
Lease liabilities associated with assets held for sale	366	-4	4
Gross effect on profit or loss of the period and net assets		1,481	-1,525
Deferred tax		-281	290
Total		1,200	-1,235

Price risk

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

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

The Company reduces the price risk by signing master agreements for the supply of strategic materials.

Credit risk

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

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

Before a contract is signed, each counterparty is assessed in terms of their ability to fulfil their financial obligations. If the assessment is negative, signing of the contract is conditional at least on the provision of proper

security on property or financial security. In addition, the Company tries to make sure that contracts with investors provide for the right to stop the works if the payment for the services already performed is delayed. If possible, contracts provide for the Company's ability to pay its subcontractors after the Company has been paid by an investor.

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

Liquidity risk

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

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

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

6.5. Cash and cash equivalents

	31-12-2021	31-12-2020
Cash on hand and at banks	106,612	20,230
Bank deposits up to three months	0	0
TOTAL	106,612	20,230

The cash does not include the cash on escrow accounts attributable to consortium members. The Company believes that the cash cannot be defined as an asset and is not presented in the balance sheet. As at 31 December 2021, the cash on escrow accounts maintained by ZUE was PLN 6,318 thousand, including PLN 3,663 thousand attributable to ZUE. There was no cash on escrow accounts as at 31 December 2020.

7. Other notes to the financial statements

7.1. Property, plant and equipment

Gross value	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2021	0	23,233	47,508	59,896	2,280	132,917	324	0	133,241
Additions	0	0	1,939	1,920	83	3,942	3,087	98	7,127
Reclassification – right-of-use*	0	0	1,767	8,520	0	10,287	-735		9,552
Transfer to non-current assets	0	0	0	0	0	0	1,989	33	2,022
Sale/Liquidation	0	0	3,953	3,190	23	7,166	122	0	7,288
Balance at 31 December 2021	0	23,233	47,261	67,146	2,340	139,980	565	65	140,610

Depreciation	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2021	0	8,968	26,408	32,734	1,751	69,861	0	0	69,861
Elimination on disposal of assets	0	0	3,295	2,572	23	5,890	0	0	5,890
Reclassification – right-of-use* - depreciation expense	0	0	442	2,726	0	3,168	0	0	3,168
Depreciation expense	0	613	2,597	5,500	138	8,848	0	0	8,848
Balance at 31 December 2021	0	9,581	26,152	38,388	1,866	75,987	0	0	75,987

Net carrying amount	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2021	0	14,265	21,100	27,162	529	63,056	324	0	63,380
Balance at 31 December 2021	0	13,652	21,109	28,758	474	63,993	565	65	64,623

*Purchase at the end of lease and leaseback.

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

As at 31 December 2021, the amount of net liabilities incurred to purchase property, plant and equipment was PLN 239 thousand. As at 31 December 2021, the gross carrying amount of fully depreciated property, plant and equipment still used by the Company was PLN 16,537 thousand.

Assets pledged as security

The types of security for the bank agreements concerning property, plant and equipment are discussed in the note 7.21.

Comparative information:

Gross value	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2020	0	24,725	36,342	55,586	2,187	118,840	377	27	119,244
Additions	0	56	1,560	4,236	229	6,081	1,199	46	7,326
Reclassification – right-of-use*	0	0	10,457	4,827	0	15,284			15,284
Transfer to non-current assets	0	0	0	0	0	0	1,252	73	1,325
Sale/Liquidation	0	189	851	4,753	136	5,929	0	0	5,929
Reclassification to assets held for sale	0	-1,359	0	0	0	-1,359	0	0	-1,359
Balance at 31 December 2020	0	23,233	47,508	59,896	2,280	132,917	324	0	133,241

Depreciation	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2020	0	9,215	22,676	31,864	1,794	65,549	0	0	65,549
Elimination on disposal of assets	0	178	786	4,658	135	5,757	0	0	5,757
Reclassification – right-of-use* - depreciation expense	0	0	1,847	671	0	2,518	0	0	2,518
Depreciation expense	0	641	2,671	4,857	92	8,261	0	0	8,261
Reclassification to assets held for sale	0	-710	0	0	0	-710	0	0	-710
Balance at 31 December 2020	0	8,968	26,408	32,734	1,751	69,861	0	0	69,861

Net carrying amount	Freehold land	Buildings	Plant and equipment	Vehicles	Other	Total non-current assets	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2020	0	15,510	13,666	23,722	393	53,291	377	27	53,695
Balance at 31 December 2020	0	14,265	21,100	27,162	529	63,056	324	0	63,380

* Purchase at the end of lease and leaseback.

7.2. Investment property

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2021	126	6,713	4,124	0	0	0	10,963	0	0	10,963
Additions	0	0	0	0	0	0	0	27	0	27,00
Adjustment	0	-1,000	914	0	0	0	-86	22	0	-64,00
Balance at 31 December 2021	126	5,713	5,038	0	0	0	10,877	49	0	10,926

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2021	0	2,078	2,388	0	0	0	4,466	0	0	4,466
Adjustment	0	0	-64	0	0	0	-64	0	0	-64,00
Depreciation expense	0	212	167	0	0	0	379	0	0	379,00
Balance at 31 December 2021	0	2,290	2,491	0	0	0	4,781	0	0	4,781

Net carrying amount	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL	Non-current assets under construction	Prepaid non-current assets under construction	TOTAL
Balance at 1 January 2021	126	4,635	1,736	0	0	0	6,497	0	0	6,497
Balance at 31 December 2021	126	3,423	2,547	0	0	0	6,096	49	0	6,145

The investment property as at 31 December 2021 and 31 December 2020 included the real estate in Kościelisko. The investment property comprises buildings with land and leasehold land. The Company's investment property is held either as freehold or leasehold interests.

No impairment losses were recognised by the Company in the reporting period. The total amount of investment property impairment losses is PLN 770 thousand.

The investment property was measured at purchase price less impairment losses. The Company did not earn income from the lease of investment property in 2021 or 2020. Operating expenses relating to investment property amounted to PLN 502 thousand in 2021 (PLN 456 thousand in 2020).

Assets pledged as security

The types of security for the bank agreements concerning investment property are discussed in the note 7.21.

Comparative information:

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2020	126	6,587	7,409	0	0	0	14,122
Impairment	0	1,000	0	0	0	0	1,000
Sale/Liquidation	0	0	0	0	0	0	0
Reclassification to assets held for sale	0	-874	-3,285	0	0	0	-4,159
Balance at 31 December 2020	126	6,713	4,124	0	0	0	10,963

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2020	0	1,898	2,737	0	0	0	4,635
Depreciation expense	0	218	228	0	0	0	446
Reclassification to assets held for sale	0	-38	-577	0	0	0	-615
Balance at 31 December 2020	0	2,078	2,388	0	0	0	4,466

Net carrying amount	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Balance at 1 January 2020	126	4,689	4,672	0	0	0	9,487
Balance at 31 December 2020	126	4,635	1,736	0	0	0	6,497

7.3. Intangible assets

Structure of intangible assets:

	31-12-2021	31-12-2020
Acquired concessions, patents, licenses and similar assets, including:	2,697	2,047
- software	2,697	2,047

Movement in intangible assets:

Intangible assets – software	31-12-2021	31-12-2020
Gross value		
Balance at the beginning of the period	5,621	5,259
Additions	932	645
Sale/Liquidation	92	283
Balance at the end of the period	6,461	5,621
Amortisation and impairment		
Balance at the beginning of the period	3,574	3,775
Amortisation expense	282	81
Sale/Liquidation	92	282
Balance at the end of the period	3,764	3,574
Net carrying amount		
Balance at the beginning of the period	2,047	1,484
Balance at the end of the period	2,697	2,047

No impairment losses were recognised by the Company in 2021 or 2020. As at 31 December 2021, the gross carrying amount of fully amortised intangible assets still in use was PLN 3,465 thousand.

7.4. Right-of-use assets

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total	Right-of-use assets under construction	Prepaid right-of-use assets under construction	TOTAL
Balance at 1 January 2021	0	13,164	0	5,824	30,682	0	49,670	0	0	49,670
Conclusion of new contracts	0	0	0	1,486	5,837	0	7,323	0	0	7,323
Changes on amendments to contracts	0	1,767	0	0	129	0	1,896	0	0	1,896
Reclassification – right of use*	0	0	0	-1,767	-8,520	0	-10,287	735	0	-9,552
Transfer to right-of-use assets	0	0	0	0	735	0	735	-735	0	0
Changes on the shortening of a contract	0	0	0	0	-20	0	-20	0	0	-20
Balance at 31 December 2021	0	14,931	0	5,543	28,843	0	49,317	0	0	49,317

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total	Right-of-use assets under construction	Prepaid right-of-use assets under construction	TOTAL
Balance at 1 January 2021	0	1,445	0	1,210	5,340	0	7,995	0	0	7,995
Depreciation expense	0	176	0	620	2,355	0	3,151	0	0	3,151
Reclassification – right of use* - depreciation expense	0	0	0	-442	-2,726	0	-3,168	0	0	-3,168
Elimination on the shortening of a contract	0	0	0	0	-17	0	-17	0	0	-17
Balance at 31 December 2021	0	1,621	0	1,388	4,952	0	7,961	0	0	7,961

Net carrying amount	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total	Right-of-use assets under construction	Prepaid right-of-use assets under construction	TOTAL
Balance at 1 January 2021	0	11,719	0	4,614	25,342	0	41,675	0	0	41,675
Balance at 31 December 2021	0	13,310	0	4,155	23,891	0	41,356	0	0	41,356

* Purchase at the end of lease and leaseback.

Assets pledged as security

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

Comparative information:

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2020	1,239	13,164	1,157	15,551	33,595	0	64,706
Conclusion of new contracts	522	0	186	730	2,177	0	3,615
Changes on amendments to contracts	0	0	0	0	-263	0	-263
Reclassification – right of use*	0	0	0	-10,457	-4,827	0	-15,284
Changes on the shortening of a contract	-1,761	0	-1,343	0	0	0	-3,104
Balance at 31 December 2020	0	13,164	0	5,824	30,682	0	49,670

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2020	535	1,276	618	2,263	3,955	0	8,647
Depreciation expense	518	169	550	794	2,318	0	4,349
Reclassification – right of use* - depreciation expense	0	0	0	-1,847	-671	0	-2,518
Elimination on the shortening of a contract	1,053	0	1,168	0	262	0	2,483
Balance at 31 December 2020	0	1,445	0	1,210	5,340	0	7,995

Net carrying amount	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2020	704	11,888	539	13,288	29,640	0	56,059
Balance at 31 December 2020	0	11,719	0	4,614	25,342	0	41,675

* Purchase at the end of lease and leaseback.

7.5. Assets held for sale

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2021	0	874	3,285	0	0	0	4,159
Additions	0	0	0	0	0	0	0
Liquidations	0	0	0	0	0	0	0
Balance at 31 December 2021	0	874	3,285	0	0	0	4,159

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2021	0	38	577	0	0	0	615
Elimination on disposal of assets	0	0	0	0	0	0	0
Depreciation expense	0	0	0	0	0	0	0
Balance at 31 December 2021	0	38	577	0	0	0	615

Net carrying amount	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2021	0	836	2,708	0	0	0	3,544
Balance at 31 December 2021	0	836	2,708	0	0	0	3,544

The assets held for sale as at 31 December 2021 and 31 December 2020 included the real estate situated in Poznań.

As at 31 December 2021, the amount of lease liabilities on assets held for sale was PLN 366 thousand.

The Company intends to sell the real estate in Poznań and expects the transaction to be at least equal to the carrying amount of assets.

The extension of the period required to complete the sales transaction is caused by the events or circumstances beyond the Company's control (activities relating to the organisation of the real estate's legal condition). The Company still intends to sell the real estate.

Comparative information:

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2020	0	0	0	0	0	0	0
Liquidations	0	0	1,359	0	0	0	1,359
Reclassification from property, plant and equipment	0	0	1,359	0	0	0	1,359
Reclassification from investment property	0	874	3,285	0	0	0	4,159
Balance at 31 December 2020	0	874	3,285	0	0	0	4,159

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2020	0	0	0	0	0	0	0
Elimination on disposal of assets	0	0	710	0	0	0	710
Reclassification from property, plant and equipment	0	0	710	0	0	0	710
Reclassification from investment property	0	38	577	0	0	0	615
Balance at 31 December 2020	0	38	577	0	0	0	615

Net carrying amount	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2020	0	0	0	0	0	0	0
Balance at 31 December 2020	0	836	2,708	0	0	0	3,544

7.6. Goodwill

At cost	31-12-2021	31-12-2020
Goodwill of PRK	31,172	31,172
Balance at the end of the reporting period	31,172	31,172

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

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

ZUE and PRK merged under joint control.

The goodwill is assigned in full to the construction segment.

Annual impairment test

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

The recoverable amount was determined with the discounted future cash flows method. The rate of average weighted cost of capital including the projected structure and the cost of financing, and the market risks was 11.6%.

After it had considered external circumstances influencing a long-term market capitalization of the Company below the carrying amount, the Company carried out the tests for the impairment of the Company's assets as at 31 December 2021.

The impairment tests carried out as at 31 December 2021 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

Information about the Company's subsidiaries

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

Structure of the Capital Group as at 31 December 2021 and at the date of preparation of these financial statements:



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

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.

The companies within the Capital Group have been incorporated for indefinite period. The financial statements of 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.

Company	Core business	Registered office and principal place of business	Shares %		Value at historical cost	
			31-12-2021	31-12-2020	31-12-2021	31-12-2020
Railway GFT Polska Sp. z o.o.	Sales activities	Cracow	85%	85%	221	221
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Preparation of comprehensive design documentation	Poznań	100%	100%	8,762	8,762
Railway Technology International Sp. z o.o.	Holding activities	Cracow	100%	100%	231	211
Total investments in subordinates					9,214	9,194
Allowance for shares of BPK Poznań (cumulative)					8,762	8,762
Allowance for shares of RTI (cumulative)					231	211
Total investments in subordinates net of allowances					221	221

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

The consolidated financial statements for the year ended 31 December 2021 were prepared and approved of on 1 March 2022. ZUE is the Parent Company of the Group.

7.8. Other financial assets

No other financial assets were held by the Company at 31 December 2021 or 31 December 2020.

7.9. Other assets

	Current assets	
	31-12-2021	31-12-2020
Deferred expenses	402	430
Other receivables	61	32
Total	463	462

The amount of short-term deferred expenses mainly includes the items of property insurance.

7.10. Advanced loans

	31-12-2021	31-12-2020
Loans advanced to related parties	3,572	1,879
Loans advanced to third parties	285	285
Impairment losses	-285	-440
Total	3,572	1,724

Advanced loans include principal and interest charged at the end of the reporting period. In the reporting period, the Company granted special-purpose loans of PLN 2,000 thousand to subsidiaries.

7.11. Inventories

	31-12-2021	31-12-2020
Goods, raw and other materials	29,593	21,697
Work-in-progress	766	205
Finished goods	0	208
Total	30,359	22,110

The purchase of strategic materials such as aggregate, sleepers, rails or railway switches is secured by the conclusion of long-term master agreements. The abovementioned materials are purchased to reduce the risk of price increase in times of limited supply caused by the accumulation of railway works.

The write-downs on inventories of PLN 190 thousand were used in the reporting period. No new write-downs were made. The total amount of write-downs was PLN 0 as at 31 December 2021 and PLN 190 thousand as at 31 December 2020.

7.12. Other financial liabilities

	31-12-2021	31-12-2020
Liabilities under dividends	36	36
Total	36	36

7.13. Liabilities under employee benefits

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

	31-12-2021	31-12-2020
Pension and retirement gratuities and death allowances, including:	2,038	1,442
– present amount of obligation at the end of the reporting	2,038	1,442

period		
– 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
Liabilities to employees	0	0
Employee benefits	39,971	31,104
– provision for unused leaves	7,636	6,935
– provision for bonuses	22,505	14,677
– salaries and wages	5,086	5,081
– social security and other benefits	4,744	4,411
Total liabilities under retirement and other benefits	42,009	32,546
including:		
– long-term	1,789	1,358
– short-term	40,220	31,188

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

If an employee dies during the term of employment, their family is paid a death allowance by the employer. The amount of the allowance depends on the seniority.

Main actuarial assumptions for calculating liabilities under pension and retirement gratuities and death allowances

	31-12-2021	31-12-2020
Discount rate	3.41%	1.59%
Expected increase in salaries and wages	3.50%	2.50%

Pension and retirement gratuities and death allowances

	2021	2020
Present amount of obligation at the beginning of the period	1,442	1,309
Interest expense	31	21
Current service cost	183	152
Past service cost	424	0
Benefits paid	-149	-110
Actuarial (gains) / losses	107	70
Present amount of obligation at the end of the period	2,038	1,442

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

	2021	2020
Current service cost	183	152
Interest expense	31	21
Actuarial (gains) / losses to be recognised in the period	107	70
Past service cost	424	0
Costs recognised in the statement of comprehensive income	745	243
Amount recognised in profit or loss	638	173
Amount recognised in other comprehensive income (without deferred tax)	107	70

	2021	2020
Actuarial gains (losses) relating to specific benefit schemes	-107	-70
Deferred tax	40	13

Amount recognised in other comprehensive income	-67	-57
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Actuarial gains and losses are recognized by the Company in the statement of comprehensive income.

Provisions for pension and retirement gratuities and death allowances are made 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 2021 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	Death allowance	Total
initial provision amounts	1,444	95	499	2,038
rotation rate -1.0%	1,496	100	529	2,125
rotation rate +1.0%	1,398	91	473	1,962
probability of drawing pension -0.5	1,451	80	502	2,033
probability of drawing pension +0.5	1,438	111	497	2,046
technical discount rate -1.00%	1,512	98	523	2,133
technical discount rate +1.00%	1,382	92	477	1,951
<i>rise in bases</i>				
remuneration at the Company -1.0%	1,324	89	456	1,869
remuneration at the Company +1.0%	1,585	102	549	2,236

7.14. Financial instruments

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

Balance at 31 December 2021

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
Retentions on construction contracts (before discount)	11,712	0	0	0	42,955
Trade receivables	150,544	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	3,857	0	0	0	0
Cash and cash equivalents	0	106,612	0	0	0
Loans and bank credits	0	0	0	0	4,443
Lease liabilities	0	0	0	0	20,422
Lease liabilities associated with assets held for sale	0	0	0	0	366
Trade payables	0	0	0	0	105,396
Total	166,113	106,612	0	0	173,618

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 2020

Classes of financial instruments	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
----------------------------------	------------------------------------	-------------------------------------------------------	-------------------------------------------------------------------	------------------------------------------------------------	-----------------------------------------

Retentions on construction contracts (before discount)	13,164	0	0	0	38,644
Trade receivables	161,016	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	2,164	0	0	0	0
Cash and cash equivalents	0	20,230	0	0	0
Loans and bank credits	0	0	0	0	13,333
Lease liabilities	0	0	0	0	20,976
Lease liabilities associated with assets held for sale	0	0	0	0	366
Trade payables	0	0	0	0	124,687
Total	176,344	20,230	0	0	198,042

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	31-12-2021	31-12-2020
– less than 1 year	132,967	161,205
– 1 - 3 years	17,385	17,564
– 3 - 5 years	3,080	2,404
– 5 + years	20,186	16,869
Total	173,618	198,042

Derivative instruments

No derivative instrument transactions were entered into by the Company in 2021 or 2020.

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	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Railway gft	174	70	2,922	73
BPK Poznań	683	2,369	901	996
RTI	0	0	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	857	2,439	3,823	1,069

	Revenue		Purchases	
	2021	2020	2021	2020
Railway gft	492	414	9,835	5,701
BPK Poznań	521	4,450	2,656	2,027
RTI	3	3	0	0
RTI Germany	0	0	0	0
Wiesław Nowak	5	0	0	0
Total	1,021	4,867	12,491	7,728

	Advanced loans	Financial income (interest)

	31-12-2021	31-12-2020	2021	2020
Railway gft	3,000	1,007	58	7
BPK Poznań	572	707	18	19
RTI	0	10	0	0
RTI Germany	0	155	5	0
Wiesław Nowak	0	0	0	0
Total	3,572	1,879	81	26

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

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

- Lease of rooms, including utilities and phone services;
- Financial services;
- Sale of materials;
- Re invoicing of expenses;
- Other services.

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

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

On 29 January 2021, ZUE and Railway gft signed an annex to the loan agreement of 6 August 2020 whereby the loan repayment date was extended until 30 April 2021. On 30 April 2021, another annex was signed whereby the loan repayment date was extended until 31 October 2021. On 26 October 2021, another annex was signed whereby the repayment date was extended until 31 October 2022.

On 11 June 2021, ZUE and Railway gft signed the special-purpose loan agreement for the loan of PLN 2m to be repaid by 30 November 2021. PLN 1.5m was disbursed on the agreement conclusion date and the remaining balance of PLN 500,000 was disbursed on 16 June 2021. On 26 October 2021, an annex was signed whereby the loan repayment date was extended until 30 November 2022.

On 21 June 2021, ZUE and BPK Poznań signed an annex to the loan agreement of 11 February 2020 whereby the repayment date was extended until 20 December 2021. On 19 December 2021, another annex was signed whereby the repayment date was extended until 20 June 2022.

In the reporting period, ZUE and RTI Germany signed the agreement with an annex whereby the loans of EUR 25,000 were partially cancelled and the repayment of the remaining balance was extended until 20 December 2021. The loan was repaid in full on 3 August 2021.

On the basis of the notarial deed of PLN 12 July 2021, ZUE acquired 400 newly created RTI shares with the total nominal value of PLN 20 thousand. The shares were paid up in cash.

The loan granted under the agreement of 22 July 2020 between ZUE a RTI was repaid in full on 3 August 2021.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total amount of the guarantees as at 31 December 2021 is PLN 14,291 thousand.

Remuneration of key management personnel

	2021	2020
Management Board	4,767	4,420
Proxy	785	603
Supervisory Board	267	267
Total	5,819	5,290

The remuneration of the Supervisory Board includes only the remuneration paid to Members for their service on the Board.

In 2020, the Company also presented the remuneration paid to the Supervisory Board Members under employment contracts. In order to make the financial statements clearer, the amount for the year 2020 was adjusted for the remuneration payable under an employment contract.

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

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

Court cases are discussed in detail in the consolidated financial statements.

7.17. Tax settlements

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

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

No significant or countable tax risks were recognised by the Company at 31 December 2021 or 31 December 2020.

The tax inspection of CIT for 2018 commenced at the Company on 7 February 2022.

7.18. Remuneration of key management personnel

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

	Term	Remuneration	Term	Remuneration
Management Board				
Wiesław Nowak	01.2021-12.2021	1,540	01.2020-12.2020	1,490
Anna Mroczek	01.2021-12.2021	823	01.2020-12.2020	813
Jerzy Czeremuga	01.2021-12.2021	739	01.2020-12.2020	707
Maciej Nowak	01.2021-12.2021	815	01.2020-12.2020	720
Marcin Wiśniewski	01.2021-12.2021	850	01.2020-12.2020	690
Proxy				
Magdalena Nowak*	01.2021-12.2021	785	01.2020-12.2020	603
Supervisory Board				
Mariusz Szubra	01.2021-12.2021	67	01.2020-12.2020	67
Barbara Nowak	01.2021-12.2021	50	01.2020-12.2020	50
Bogusław Lipiński	01.2021-12.2021	50	01.2020-12.2020	50
Piotr Korzeniowski	01.2021-12.2021	50	01.2020-12.2020	50
Michał Lis	01.2021-12.2021	50	01.2020-12.2020	50
Total		5,819		5,290

*Change of name.

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.

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. Dividend

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

On 10 May 2021, the Management Board of ZUE passed the resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2020 of PLN 4,362 thousand to

reserve funds. The Company's Supervisory Board gave a favourable opinion on the said recommendations on 25 May 2021.

On 22 June 2021, the Company's Ordinary General Meeting resolved to allocate the entire net profit for 2020 to reserve funds.

7.20. Liabilities incurred to purchase property, plant and equipment

There were no major agreements concerning capital expenditures on property, plant and equipment as at 31 December 2021 or 31 December 2020.

7.21. Contingent assets and contingent liabilities

Contingent assets

	31-12-2021	31-12-2020
Bonds	87,878	98,658
Promissory notes	6,917	4,750
Pledges	300	300
Total	95,095	103,708

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

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

Apart from the bonds and promissory notes, ZUE is the pledgee in connection with the pledge on movables established by a subsidiary.

Contingent liabilities

	31-12-2021	31-12-2020
Bonds	505,851	539,451
Guarantees	14,291	15,056
Promissory notes	287,551	321,888
Mortgages	81,529	81,529
Pledges	145,172	155,961
Total	1,034,394	1,113,885

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, lessors 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.

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

7.22. Discontinued operations

No operations were discontinued within the meaning of IFRS 5 in 2021 or the comparative period.

7.23. 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. 8.2.10., note no. 8.2.12. and note no. 8.2.16.)

Loss allowances for receivables (note no. 3.4.)

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. 7.21.)

Uncertainty over tax settlements (note no. 7.17.)

7.24. Influence of the coronavirus pandemic on ZUE's activities

Measures taken by ZUE

The Issuer has taken preventive measures to reduce the risk of infection among the 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 pandemic situation in Poland following the Government's announcement of the new restrictions on 10 October 2020 and 20 March 2021 and considers the related recommendations. In times of the pandemic increase in 2021, the Company extended the ability of its employees to work remotely or on a rotational basis where remote work was 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.

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 Company's activity and financial standing in 2021

The coronavirus epidemic in Poland and the related restrictions have an influence both on the performance of construction contracts and other areas of the Company'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 contacts, arrangements and acceptances have continued remotely. The work has been organised to ensure the safety of people involved in the performance of construction contracts.

In addition to general restrictions witnessed in Poland at the end of the reporting period and at present, employees and other people involved in construction projects have been absent due to isolation and quarantine caused by COVID-19. These factors, however, have not disturbed ZUE's construction processes or supply chains thanks to the measures taken by ZUE and the fact that the absence from work has been relatively small. In

addition, the Issuer believes that the situation is common and experienced by the majority of entities operating on the market.

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 predictions about further 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 Company's activity and financial standing

The impact of the coronavirus pandemic on the Company's future position or results cannot be estimated at the date of preparation of this report. 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.

The Company has not taken and does not intend to take any advantage of the government shielding programmes.

Below please find the factors which may influence the markets in which the Company operates and the Company's activities 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 national 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.

Impact of the coronavirus pandemic on social and employee issues, natural environment, respect of human rights and counteracting corruption:

The COVID-19 pandemic has mainly influenced the Company's employees and social issues. Interpersonal communication was affected in 2021 and work had, to a certain extent, to be done remotely. Remote communication tools were also used to recruit and train employees. Limited direct interactions among people reduced the mobility of employees and, consequently, limited the emission of gases to the atmosphere. Electronic communication was more environmentally friendly because less paper was used. The pandemic did not affect other areas, such as respect of human rights or counteracting corruption.

7.25. Influence of the situation in Ukraine on ZUE's activities

The war in Ukraine has no direct material influence on the Company's operations or financial results at the date of approval of this report. Ukraine's political and economic situation is constantly monitored by the Company in terms of the actual and potential impact thereof on ZUE's activities.

Below please find the factors which may influence the markets in which the Company operates in the next quarters:

- a) Increased prices of certain imported products and materials caused by the weakening of PLN rate (as well as other currencies of the region);
- b) Disruptions in the chains of supply of certain imported products and materials;
- c) Increased prices of fuels, natural gas and electricity;
- d) Limited access to fuels;
- e) Greater financial risk of the countries of the region which may limit the access to financing and entail greater costs;

- f) Possible migration of Ukrainian employees from Poland to Ukraine (to protect their families and properties or at the request of the authorities); and
- g) Possible road obstructions after certain sections have been used for military transports or humanitarian aid.

8. Other notes to the financial statements

8.1. Use of the International Financial Reporting Standards

8.1.1. Statement of compliance

The financial statements of the Company for the year ended 31 December 2021 and the comparative information for the financial year ended 31 December 2020 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 2021:

- **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 16 “Leases” – COVID-19-Related Rent Concessions beyond 30 June 2021** published on 31 March 2021 (effective for annual periods beginning on or after 1 April 2021).

According to the Company, the abovementioned amendments to the standards or interpretations do not have any material influence on the separate financial statements of ZUE.

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

Standards and interpretations published and endorsed by the EU but not yet effective at the date of approval of the financial statements:

- **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);
- **Amendments to IFRS 3 “Business Combinations”** – updated reference to Conceptual Framework (effective for reporting periods beginning 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).

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 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);
- **Amendments to IAS 1 “Presentation of Financial Statements” and the IFRS Board guidelines on disclosures of accounting policies in practice** – disclosure of material accounting policy information (effective for annual periods beginning on or after 1 January 2023 with earlier application permitted);

- **Amendments to IAS 8 “Accounting Principles (Policies), Changes in Accounting Estimates and Errors”** – definition of estimates (effective for annual periods beginning on or after 1 January 2023 with earlier application permitted);
- **Amendments to IAS 12 “Income Taxes”** – deferred tax related to assets and liabilities on particular transactions (effective for annual periods beginning on or after 1 January 2023 with earlier application permitted);
- **Amendments to IFRS 17 “Insurance Contracts”** – first application of IFRS 17 and IFRS 9 – comparative information (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 by the EU;
- **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 financial statements have been prepared assuming that the Company will continue in operational existence for at least 12 months after the end of the reporting period. The most important factor influencing the Company's ability to continue in operational existence is the financial condition. The key factors with an impact on the Company's ability to continue its operations include liquidity, proper backlog and market situation.

In the 12 months ended 31 December 2021, the Company recognised the sales revenue of PLN 781.4m and the gross profit of PLN 29.9m. As at 31 December 2021, the Company presented the total current assets of PLN 377m, including trade and other receivables of PLN 126.7m and the cash of approx. PLN 106.6m. At the end of the reporting period, ZUE had the backlog worth approx. PLN 1,481m and was in the process of winning new contracts.

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

8.2.2. Comparability of financial data

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

A separate item, namely “Lease liabilities associated with assets held for sale,” was presented by the Company in the statement of financial position. Previously, the item was recognised in lease liabilities.

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

	Restated	Approved	
	31-12-2020	31-12-2020	Effect of changes
ASSETS			
Non-current assets			
Total non-current assets	167,782	167,782	0
Current assets			
Current assets	331,944	331,944	0
Assets held for sale	3,544	3,544	0
Total current assets	335,488	335,488	0
Total assets	503,270	503,270	0
EQUITY AND LIABILITIES			

Equity			
Total equity	153,596	153,596	0
Non-current liabilities			
Non-current lease liabilities	11,925	12,291	-366
Total non-current liabilities	50,237	50,603	-366
Current liabilities			
Total current liabilities	299,071	299,071	0
Lease liabilities associated with assets held for sale	366	0	366
Total liabilities	349,674	349,674	0
Total equity and liabilities	503,270	503,270	0

8.2.3. Preparation basis

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

The accounting principles (policies) used in the preparation of these financial statements are consistent with the accounting principles (policies) used in the preparation of the financial statements of the Company for the financial year ended 31 December 2020.

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

8.2.4. Segment reporting

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

The Company is organised and managed within the abovementioned segment.

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

8.2.5. Recognition of revenue from long-term construction contracts

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

Revenue from construction contracts

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

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

The Company recognises revenue from unfinished construction service according to the five-step model and applies an input method in compliance with a modified retrospective approach.

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

Input method

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

Zero-profit method

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

Recognition of expected losses

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

Practical use of progress toward completion measurement methods

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

Contract measurement stages:

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

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

8.2.6. Foreign currencies

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

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

8.2.7. Borrowing costs

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

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

These capitalisation rules are not applied to assets measured at fair value.

8.2.8. Costs of employee benefits

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

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

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

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

If an employee dies during the term of employment, their family is paid a death allowance by the employer. The amount of the allowance depends on the seniority.

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

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

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

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

8.2.9. Income tax (including deferred tax)

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

Current tax

The tax currently payable is calculated based on taxable profit (tax base) for the year. Taxable profit (loss) differs from accounting net profit (loss) because it excludes items of income or expense that are not taxable or deductible and adjusts for taxable expenses that are not balance sheet expenses and taxable income that is not balance sheet income. The Company's liability for current tax is calculated using tax rates applicable in the year.

Deferred tax

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

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

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

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

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

Current and deferred tax for the year

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

8.2.10. Property, plant and equipment

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

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

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

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

Freehold land is not depreciated.

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

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

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

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

8.2.11. Investment property

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

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

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

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

8.2.12. Intangible assets

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

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

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

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

Intangible assets are tested for impairment if there are indications of impairment and any impairment is determined at the end of each reporting period. Rules governing the determining of impairment are set out in note 8.2.13. Effects of the impairment of intangible assets and their amortisation are carried to other operating expenses.

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

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

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

8.2.13. Impairment of property, plant and equipment and intangible assets, excluding goodwill

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

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

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

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

8.2.14. Non-current assets held for sale

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

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

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

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

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

8.2.15. Investments in subordinates

Investments in subordinates are measured at historical cost net of impairment, if any.

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

8.2.16. Leases

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

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

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

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

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

Lease liabilities are measured by the Company at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if the rate can be readily determined. If the rate cannot be readily determined, the Company's incremental borrowing rate can be used. The rate is defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

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

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

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

- a) Increasing the carrying amount to reflect interest on the lease liability;
- b) Reducing the carrying amount to reflect the lease payments made; and

- c) Remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

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

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

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

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

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

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

<u>Item</u>	<u>Useful lives</u>
Land and buildings	1 - 5 years
Plant and equipment	10 - 25 years
Vehicles	1 - 25 years
Leasehold land	30 - 89 years

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

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

8.2.17. Inventories

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

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

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

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

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

8.2.18. Trade and 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 Company in the following manner:

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

Other receivables include advance payments for remuneration, purchases, other (accommodation), accounting for: business trips (overall), mileage compensation limits, credit cards, shortages or damage, shortages charged

on employees, treatment of surpluses, other accounts payable-bid bond and determining the Company Social Benefits Fund.

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

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

8.2.19. Cash and cash equivalents

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

8.2.20. Trade and other payables

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

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

- a) Trade payables;
- b) Liabilities to the state budget other than corporate income tax;
- c) Other payables.

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

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

8.2.21. Accruals

Accruals include provisions for the costs of contracts.

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

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

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

8.2.22. Advance payments

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

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

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

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

8.2.23. Financial assets

Classification and measurement

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

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

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

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

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

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

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

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

The following items are included by the Company into the category of financial assets measured at fair value through profit or loss:

- Cash and cash equivalents.

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

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

Impairment

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

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

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

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

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

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

Hedge accounting

No hedge accounting is applied by the Company.

8.2.24. Financial liabilities and equity instruments issued by the Company

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

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

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

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms a part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it is a part of a contract containing one or more embedded derivatives and under IFRS 9, the entire contract (asset or liability) may be designated as an item as at fair value through profit or loss.

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

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

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

8.2.25. Provisions

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

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

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

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

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

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

8.3. Sources of estimation uncertainty

The preparation of financial statements in conformity with the IFRS requires the Management Board to make

judgments, estimates and assumptions that affect the adopted policies and reported assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates relate, *inter alia*, to:

1. Impairment of goodwill
2. Useful economic lives of non-current assets
3. Loss allowances for receivables
4. Provisions
5. Measurement of long-term construction contracts
6. Deferred income tax
7. Contingent assets and contingent liabilities
8. Uncertainty over tax settlements

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant influence on the risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

8.3.1. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of all cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate required to calculate the present value.

8.3.2. Useful economic lives of non-current assets

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

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

8.3.3. Loss allowances for receivables

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

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

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

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

8.3.4. Provisions

Provisions for litigations

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

Provisions for employee benefits

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

Provisions for warranty claims

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

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

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

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

Provisions for loss on contracts

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

A loss provision is created to bring profit or loss to the amount of a budgeted loss. Provisions for expected losses are charged to the cost of contract. If it is not used, the provision is released (after contract completion) by reducing the cost of sales. They are presented in the statement of financial position as short-term provisions.

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

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

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

8.3.6. Deferred tax assets

The Company's Management Board decide about the recognition of deferred tax assets based on 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 Company in the statement of financial position. The Company discloses information about a contingent liability in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

8.3.8. Uncertainty over tax settlements

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

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

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

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

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

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

9. Events after the end of the reporting period

On 31 January 2022, the Company published the preliminary financial results for 2021. **(Current report 5/2022)**

On 3 February 2022, the Company and Bank Polska Kasa Opieki S.A. with registered office in Warsaw signed an annex to the multi-purpose revolving credit limit agreement whereby the limit was raised from PLN 50m to PLN 75m. **(Current report 6/2022)**

On 16 February 2022, the Company informed that following the receipt of the two signed contracts for additional works entered into with PKP Polskie Linie Kolejowe S. A. (PKP PLK) (referred to in the current report 5/2018), the total net value of the contracts entered into between PKP PLK and ZUE since 3 December 2021 amounted to approx. PLN 60.4m. **(Current report 7/2022)**

10. Approval of the financial statements

The financial statements were approved by the Management Board on 1 March 2022.

11. Signatures

The financial statements have been prepared by:

Ewa Bosak Chief Accountant

Signatures of the management personnel:

Wiesław Nowak Management Board President

Anna Mroczek Management Board Vice-President

Jerzy Czeremuga Management Board Vice-President

Maciej Nowak Management Board Vice-President

Marcin Wiśniewski Management Board Vice-President

Cracow, 1 March 2022