



ZUE Capital Group

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

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

Cracow, 21 March 2023

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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 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 1,000,000 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 627,500 paid up in full. Subsidiary of ZUE.
Energopol	Przedsiębiorstwo Budownictwa Inżynieryjnego ENERGOPOL 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 0000042724, share capital of PLN 2,200,000 paid up in full. Subsidiary of ZUE.
ZUE Group, Group, Capital Group	ZUE Capital Group including at the end of the reporting period: ZUE, BPK Poznań, Railway gft, RTI, Energopol.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Uniform text, Journal of Laws of 2022, item 1467).

Share capital details as at 31 December 2022.

Selected financial data of the Capital Group

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

	31-12-2022	31-12-2022	31-12-2021	31-12-2021
	PLN '000	EUR '000	PLN '000	EUR '000
Non-current assets	199,433	42,524	175,512	38,160
Current assets	475,261	101,337	398,655	86,675
Assets held for sale	0	0	3,340	726
Total assets	674,694	143,861	577,507	125,561
Equity	180,768	38,544	166,403	36,179
Non-current liabilities	59,370	12,659	57,034	12,400
Current liabilities	434,556	92,658	353,704	76,902
Lease liabilities associated with assets held for sale	0	0	366	80
Total equity and liabilities	674,694	143,861	577,507	125,561

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

	2022	2022	2021	2021
	PLN '000	EUR '000	PLN '000	EUR '000
Sales revenue	921,420	196,536	851,450	186,008
Cost of sales	878,634	187,410	816,414	178,354
Gross profit (loss) on sales	42,786	9,126	35,036	7,654
Operating profit (loss)	18,135	3,868	14,164	3,094
Gross profit (loss)	22,107	4,715	15,364	3,356
Net profit (loss) from continuing operations	17,288	3,687	11,821	2,582
Total comprehensive income	17,500	3,733	11,754	2,568

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

	2022	2022	2021	2021
	PLN '000	EUR '000	PLN '000	EUR '000
Cash flows from operating activities	-42,599	-9,086	109,826	23,993
Cash flows from investing activities	-11,496	-2,452	-3,995	-873
Cash flows from financing activities	8,603	1,835	-20,597	-4,500
Total net cash flows	-45,492	-9,703	85,234	18,620
Cash at the beginning of the period	108,736	23,641	23,487	5,089
Cash at the end of the period	63,251	13,487	108,736	23,641

Rules adopted to translate selected financial data into EUR:

Item	Exchange rate	31-12-2022	31-12-2021	31-12-2020
Items of assets, equity and liabilities	Mid exchange rate prevailing at the end of the reporting period	4.6899	4.5994	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	4.6883	4.5775	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	4.6899	4.5994	4.6148

Consolidated statement of comprehensive income

Continuing operations	Note no.	2022	2021
Sales revenue	2.1.	921,420	851,450
Cost of sales	2.2.	878,634	816,414
Gross profit (loss) on sales		42,786	35,036
General and administrative expenses	2.2.	26,163	25,123
Other operating income	2.3.	8,481	5,686
Other operating expenses	2.4.	8,123	1,435
Gain from bargain purchase	1.5.	1,154	0
Operating profit (loss)		18,135	14,164
Financial income	2.5.	7,886	2,505
Financial expenses	2.6.	3,914	1,305
Pre-tax profit (loss)		22,107	15,364
Income tax	2.7.	4,819	3,543
Net profit (loss) from continuing operations		17,288	11,821
Net profit (loss)		17,288	11,821
Other net comprehensive income			
Items that will not be reclassified subsequently to profit or loss:		212	-67
Actuarial gains (losses) relating to specific benefit schemes	2.8.	212	-67
Total other net comprehensive income		212	-67
Total comprehensive income		17,500	11,754
Number of shares		23,030,083	23,030,083
Consolidated net profit attributable to:			
Shareholders of the Parent Company		16,392	11,765
Non-controlling interests		896	56
Net profit (loss) per share (PLN) attributable to shareholders of the Parent Company (basic and diluted)	5.2.	0.71	0.51
Total comprehensive income attributable to:			
Shareholders of the Parent Company		16,604	11,698
Non-controlling interests		896	56

Consolidated statement of financial position

ASSETS	Note no.	31-12-2022	31-12-2021
Non-current assets			
Property, plant and equipment	7.1.	72,128	64,718
Investment property	7.2.	16,095	6,145
Intangible assets	7.3.	2,491	2,716
Right-of-use assets	7.4.	33,234	41,510
Goodwill	7.6.	31,172	31,172
Investments in subordinates	7.7.	328	0
Retentions on construction contracts	3.2.	21,882	7,431
Deferred tax assets	2.7.	19,110	21,778
Advanced loans	7.10.	2,931	0
Other financial assets	7.8.	62	42
Total non-current assets		199,433	175,512
Current assets			
Inventories	7.11.	81,667	37,822
Trade and other receivables	4.1.	170,637	131,279
Valuation of long-term construction contracts	3.1.	128,191	107,149
Retentions on construction contracts	3.2.	16,668	9,491
Advance payments	3.5.	12,043	3,425
Current tax assets	2.7.	0	32
Advanced loans	7.10.	1,186	0
Other financial assets	7.8.	0	105
Other assets	7.9.	1,618	616
Cash and cash equivalents	6.5.	63,251	108,736
Current assets		475,261	398,655
Assets held for sale	7.5.	0	3,340
Total current assets		475,261	401,995
Total assets		674,694	577,507

EQUITY AND LIABILITIES	Note no.	31-12-2022	31-12-2021
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.	82,476	69,287
Total equity attributable to shareholders of the parent company		179,381	166,192
Equity attributable to non-controlling interests		1,387	211
Total equity		180,768	166,403
Non-current liabilities			
Long-term loans and bank credits	6.1.	8,696	0
Long-term lease liabilities	6.2.	15,212	14,248
Retentions on construction contracts	3.2.	16,337	24,068
Liabilities under employee benefits	7.13.	1,801	1,864
Deferred tax liabilities	2.7.	1,322	284
Long-term provisions	3.3.	16,002	16,570
Total non-current liabilities		59,370	57,034
Current liabilities			
Trade and other payables	4.2.	150,676	134,916
Accruals	3.6.	91,065	70,258
Valuation of long-term construction contracts	3.1.	47,775	49,539
Retentions on construction contracts	3.2.	21,226	17,760
Advance payments	3.5.	31,217	6,737
Short-term loans and bank credits	6.1.	19,639	7,964
Short-term lease liabilities	6.2.	5,070	6,289
Other financial liabilities	7.12.	36	36
Liabilities under employee benefits	7.13.	50,355	42,057
Current tax liabilities	2.7.	131	1,098
Short-term provisions	3.3.	17,366	17,050
Current liabilities		434,556	353,704
Lease liabilities associated with assets held for sale		0	366
Total current liabilities		434,556	354,070
Total liabilities		493,926	411,104
Total equity and liabilities		674,694	577,507

Consolidated statement of changes in equity

	Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the parent company	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2022	5,758	93,837	-2,690	69,287	166,192	211	166,403
Change of interest in subsidiaries	0	0	0	0	0	304	304
Payment of dividend	0	0	0	-3,415	-3,415	-24	-3,439
Issue of shares	0	0	0	0	0	0	0
Issue costs	0	0	0	0	0	0	0
Buy-back of shares	0	0	0	0	0	0	0
Profit (loss)	0	0	0	16,392	16,392	896	17,288
Other net comprehensive income	0	0	0	212	212	0	212
Total changes in equity	0	0	0	13,189	13,189	1,176	14,365
Balance at 31 December 2022	5,758	93,837	-2,690	82,476	179,381	1,387	180,768

	Share capital	Share premium account	Treasury shares	Retained earnings	Total equity attributable to shareholders of the parent company	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2021	5,758	93,837	-2,690	57,589	154,494	155	154,649
Change of interest in subsidiaries	0	0	0	0	0	0	0
Payment of dividend	0	0	0	0	0	0	0
Issue of shares	0	0	0	0	0	0	0
Issue costs	0	0	0	0	0	0	0
Buy-back of shares	0	0	0	0	0	0	0
Profit (loss)	0	0	0	11,765	11,765	56	11,821
Other net comprehensive income	0	0	0	-67	-67	0	-67
Total changes in equity	0	0	0	11,698	11,698	56	11,754
Balance at 31 December 2021	5,758	93,837	-2,690	69,287	166,192	211	166,403

Consolidated statement of cash flows

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	22,107	15,364
Adjustments for:		
Depreciation and amortisation	13,765	12,893
Foreign exchange gains / (losses)	-9	-15
Interest and share in profit (dividends)	2,357	999
Gain / (loss) on disposal of investments	-2,059	-524
Operating profit (loss) before changes in working capital	36,161	28,717
Change in receivables and retentions on construction contracts	-58,670	13,960
Change in inventories	-43,650	-12,516
Change in provisions and liabilities under employee benefits	6,735	17,750
Change in payables and retentions on construction contracts	9,091	3,372
Change in valuation of construction contracts	-23,523	85,660
Change in accruals	19,345	4,641
Change in advance payments	15,868	-22,406
Change in other assets	-572	30
Other adjustments	-20	94
Income tax paid / (tax refund)	-3,364	-9,476
NET CASH FROM OPERATING ACTIVITIES	-42,599	109,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property, plant and equipment and intangible assets	1,305	1,969
Purchase of property, plant and equipment and intangible assets	-4,821	-6,037
Sale / (purchase) of financial assets in related parties	-3,624	0
Advanced loans	-6,306	0
Repayment of advanced loans	466	49
Interest received	1,128	24
Cash from acquisition of subsidiary	356	0
NET CASH FROM INVESTING ACTIVITIES	-11,496	-3,995
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and bank credits received	25,000	4,109
Repayment of loans and bank credits	-4,642	-12,990
Decrease in lease liabilities	-6,727	-10,563
Lease interest paid	-1,014	-780
Other interest paid	-575	-373
Other financial income /expenses – dividends paid	-3,439	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	8,603	-20,597
TOTAL NET CASH FLOWS	-45,492	85,234
Net foreign exchange differences	7	15
TOTAL NET CASH FLOWS NET OF FOREIGN EXCHANGE DIFFERENCES	-45,485	85,249
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	108,736	23,487
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, including:	63,251	108,736
- of limited availability	18,207	15,159

Notes to the consolidated financial statements as at 31 December 2022

1. General information

Name of the reporting unit or other identification data: ZUE Capital Group

Changes in the reporting unit's name or other identification data since the end of the previous reporting period: No changes

Registered office: The Kazimierza Czapińskiego Street no. 3, 30-048 Cracow, Poland

Legal form: Public Limited Company

Country of registration: Poland

Address: The Kazimierza Czapińskiego Street no. 3, 30-048 Cracow, Poland

Principal place of business: The Group operated in Poland in 2022. In addition, the Group earned income from the sale of materials to Germany.

Core business: The Group delivers construction projects relating to urban and railway infrastructure, provides design services relating to urban and railway transport systems and sells materials and accessories required to build tracks.

Name of the parent company: ZUE Spółka Akcyjna

Top parent company of the Group: ZUE Spółka Akcyjna

1.1. Governing bodies of the Parent Company

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

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

Management Board:

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

Supervisory Board:

Piotr Korzeniowski	Supervisory Board Chairperson
Barbara Nowak	Supervisory Board Vice-Chairperson
Irena Piekarska-Konieczna	Supervisory Board Member
Agnieszka Klimas	Supervisory Board Member
Maciej Szubra	Supervisory Board Member

Audit Committee:

Irena Piekarska-Konieczna	Audit Committee Chairperson
Barbara Nowak	Audit Committee Member
Maciej Szubra	Audit Committee Member

Ms. Irena Piekarska-Konieczna, Ms. Agnieszka Klimas and Mr. Maciej Szubra meet the independence criteria referred to in the Act on Auditors, Audit Firms and Public Supervision (Uniform text, Journal of Laws of 2022, item 1302).

The following changes to the composition of the Parent Company's management and supervisory bodies occurred in the reporting period:

- On 12 January 2022, the Extraordinary General Meeting of the Company dismissed Michał Lis from his position at the Supervisory Board and appointed Agnieszka Klimas to the Supervisory Board;
- On 23 May 2022, Mariusz Szubra, member of the Company's Supervisory Board, resigned from the position as of 23 May 2022;
- On 31 May 2022, the Company's Ordinary General Meeting resolved to appoint the five members, namely Piotr Korzeniowski, Barbara Nowak, Irena Piekarska-Konieczna, Agnieszka Klimas and Maciej Szubra, to the Company's Supervisory Board for the new term of office beginning on 31 May 2022;
- On 31 May 2022, the Supervisory Board appointed the existing members of the Company's Management Board for the new three-year term of office beginning on the date of the general meeting held to approve the financial statements for 2021; i.e. on 31 May 2022.

No other changes to the composition of the Company's management or supervisory bodies occurred by the date of preparation of these consolidated financial statements.

1.2. Shareholders of the Parent Company

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

Shareholder	Number of votes/shares at 21 March 2023	% of the share capital/total number of votes	Number of shares/votes according to the previous interim report ⁽¹⁾	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53%	14,400,320	62.53%
Funds managed by PTE ⁽²⁾	1,461,659 ⁽³⁾	6.35%	1,460,000	6.34%
PKO Bankowy OFE	1,780,786 ⁽⁴⁾	7.73%	1,780,786	7.73%
Other	5,387,318 ⁽⁵⁾	23.39%	5,388,977	23.40%
Total	23,030,083	100	23,030,083	100

(1) Publication of the last interim report (consolidated report of the Group for the three quarters of 2022): 16 November 2022.

(2) NNLife OFE was disclosed as the holder of shares in the previous interim report.

(3) Shareholding on the basis of the notice of exceeding 5% of the total number of votes received on 6 February 2023. According to the Company's best knowledge, the information is valid at the date of publication of this report.

(4) Shareholding on the basis of information provided by the Central Securities Depository of Poland for the purposes of the Ordinary General Meeting of ZUE held on 22 June 2021. According to the Company's best knowledge, the information is valid at the date of publication of this report.

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

1.3. Composition of the Capital Group

At the end of the reporting period, the Capital Group was composed of ZUE S.A. (the Parent Company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o. and Przedsiębiorstwo Budownictwa Inżynierskiego Energopol Sp. z o.o.

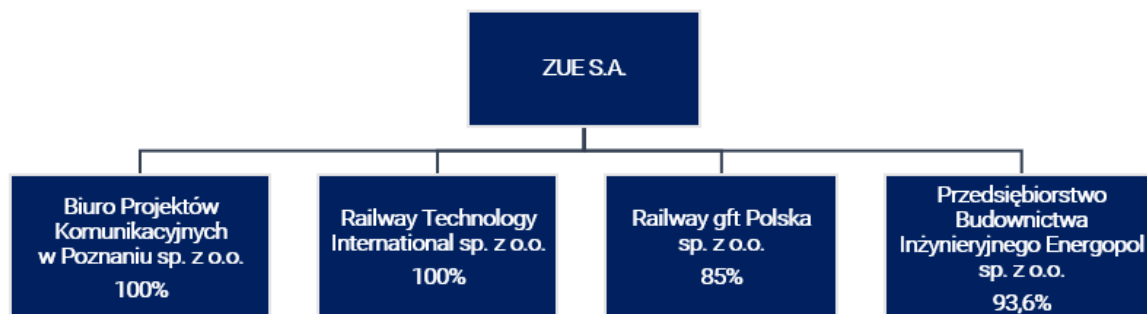
ZUE Spółka Akcyjna with registered office in Cracow (the Kazimierza Czapińskiego Street no. 3) is the parent company of the Capital Group.

The Company has been incorporated on 20 May 2002. Cracow is the Company's registered office. The Company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow XI Commercial Division of the National Court Register under entry no. KRS 0000135388.

Apart from being the provider of construction services, ZUE is the parent company responsible for coordinating the operation of the subsidiaries and optimising the Capital Group's operating expenses through, *inter alia*, the

coordination of investment and borrowing policy as well as the management of finances, human resources and the supply of materials. In addition, ZUE's task is to create a uniform trade and marketing policy of the Capital Group and to promote the Group's potential among its customers.

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



Subsidiary – Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. has been established on 15 June 2009. Poznań is the company's registered office. The company has been entered into the National Court Register maintained by the District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division, under entry no. KRS 0000332405.

Subsidiary – Railway gft Polska Sp. z o.o. has been established on 21 October 2014. Cracow is the company's registered office. The company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry no. KRS 0000532311.

Subsidiary – Railway Technology International Sp. z o.o. has been established on 20 July 2011. Cracow is the company's registered office. The company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry no. KRS 0000397032.

Subsidiary – Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol Sp. z o.o. has operated in its current legal form since 11 September 2001. 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 0000042724.

The companies within the Capital Group have been incorporated for indefinite period. The financial statements of all the subsidiaries have been prepared for the same reporting period as the Parent Company using consistent accounting principles. The Parent Company and the companies within the Group use a calendar year as their financial year.

On 28 October 2022, ZUE's branch in Romania was entered into the Register of Entrepreneurs maintained by the Court in Cluj Napoca under entry no. J12/6648/2022. The branch was established to enable the coordination of the Company's operations on the Romanian market.

1.4. Consolidated companies

Consolidated companies as at 31 December 2022:

Company name	Registered office	Shares as at 31 December 2022	Shares as at 31 December 2021	Consolidation method
ZUE S.A.	Cracow	Parent Company	Parent Company	
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	85%	85%	Full
Przedsiębiorstwo Budownictwa Inżynieryjnego ENERGOPOL Sp. z o.o.	Cracow	93.6%	0%	Full

ZUE has the power to govern the financial and operating policy of Railway gft, BPK Poznań, RTI and Energopol because as at 31 December 2022, it held a majority stake in the companies.

As at 31 December 2022, ZUE held 100% of shares in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated.

1.5. Changes in the Group's structure in 2022 and their consequences

No changes to the Group's structure occurred between the beginning of 2022 and the date of approval of these consolidated financial statements, except for the following changes.

On 23 November 2022, ZUE and several dozen individuals entered into the agreements for the sale of shares in Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol Sp. z o.o. Under the agreements, the Company acquired the total of 206 shares for PLN 3,296,000. The shares acquired by the Company represent 93.6% of the share capital of Energopol and 93.6% of the votes at the shareholders meeting of Energopol. Energopol shares were transferred to the Company on the date of the agreements. The Company financed the transaction with own resources.

ZUE gained control of Energopol on 23 November 2022 and Energopol became a subsidiary.

The following table sets out the calculation of gain from the bargain purchase of Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol Sp. z o.o.

Purchase of Energopol	Purchase settlement as at 23-11-2022
% of shares	93.6%
Fair value of consideration	3,296
Energopol assets according to IFRS	15,142
Energopol liabilities	10,387
Net assets	4,755
Net assets attributable to ZUE	4,450
Minority capital	305
Gain from bargain purchase	1,154

1.6. Activities of the Capital Group

The Group operates in the three aggregate operating segments:

- ❖ Construction activities conducted by ZUE and Energopol;
- ❖ Design activities conducted by BPK Poznań;

- ❖ Sales activities conducted by Railway gft.

Construction activities include:

- ✓ **Urban infrastructure**, including:
 - ❖ Construction and upgrade of tram tracks, tram and trolleybus traction networks, traction substations, street lighting, cable lines, street traffic signalling, road systems, buildings and telecommunications technology;
 - ❖ Maintenance of tram and street lighting infrastructure.
- ✓ **Rail infrastructure**, including:
 - ❖ Construction and upgrade of railway tracks, railway traction, railway traffic control devices and telecommunications technology, traction substations, power lines, stations and civil structures.
- ✓ **Works carried out by Energopol**:
 - ❖ Execution of road works, bridge and road structures, reinforced concrete structures, hydrotechnical and water and sewage works.

In 2022, the Group focused on the provision of rail and urban infrastructure construction services.

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

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

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

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

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

1.7. Functional and reporting currency

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

2. Notes to the statement of comprehensive income

2.1. Revenue

	2022	2021
Revenue from construction contracts	819,545	764,112
Revenue from the provision of services	9,129	11,067
Revenue from the sale of goods, raw and other materials	92,746	76,271
Total	921,420	851,450

Revenue from construction and design activity is recognised by the Group in the item 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 after certain tasks have been completed.

The Group operated in the territory of Poland in 2022. In addition, the Group earned the revenue in the total amount of PLN 711 thousand from the sale of materials to Germany.

Concentration of revenue which exceeds 10% of total sales revenue

	2022	2021
Counterparty A	412,598	627,404
Counterparty B	111,732	
Counterparty C	103,455	

PKP Polskie Linie Kolejowe S.A. was the Group's biggest customer in 2022. Its share in sales accounted for about 45% of the Group's total sales revenue in 2022.

2.2. Operating expenses

	2022	2021
Change in products	814	-454
Depreciation and amortization	13,765	12,893
Consumption of materials and energy, including:	178,975	165,983
- consumption of materials	165,582	158,260
- consumption of energy	13,393	7,723
Contracted services	483,872	449,362
Costs of employee benefits	134,240	129,384
Taxes and charges	1,980	1,816
Other expenses	16,536	19,379
Value of goods and materials sold	74,615	63,174
Total	904,797	841,537

	2022	2021
Cost of sales	878,634	816,414
General and administrative expenses	26,163	25,123
Total	904,797	841,537

Depreciation and amortisation

	2022	2021
Depreciation of property, plant and equipment	9,937	9,006
Depreciation of right-of-use assets	2,811	3,219
Amortisation of intangible assets	610	289
Depreciation of investments in real property	407	379
Total	13,765	12,893

2.3. Other operating income

	2022	2021
Gain on disposal of assets	905	646
Gain on disposal of non-current assets	905	646
Other operating income	7,576	5,040

Damages and penalties	200	3,581
Release of allowances for receivables	239	604
Refund of the costs of court proceedings	217	102
Substitute performance	6,672	415
Release of write-downs of inventories	0	190
Other	248	148
Total	8,481	5,686

2.4. Other operating expenses

	2022	2021
Loss on disposal of assets	0	0
Loss on disposal of non-current assets	0	0
Other operating expenses	8,123	1,435
Donations	38	34
Damages and penalties	8	58
Allowances for receivables	19	334
Costs of litigations	1,243	512
Substitute performance	6,672	415
Other	143	82
Total	8,123	1,435

2.5. Financial income

	2022	2021
Interest income	1,602	242
Interest on bank deposits	1,436	87
Interest on loans	138	5
Interest on receivables	28	150
Other financial income	6,284	2,263
Foreign exchange gains	71	10
Discount of long-term items	6,163	2,201
Other	50	52
Total	7,886	2,505

2.6. Financial expenses

	2022	2021
Interest expenses	1,821	1,209
Interest on bank credits	340	162
Interest on loans	231	215
Interest on leases	1,190	782
Interest on trade and other payables	60	50
Other financial expenses	2,093	96

Foreign exchange losses	192	45
Write-down of loans	1,764	0
Other	137	51
Total	3,914	1,305

2.7. Income tax

Income tax recognised in the statement of comprehensive income

	2022	2021
Current income tax	2,279	10,569
Deferred tax	2,540	-7,026
Total tax expense (income)	4,819	3,543

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

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

Current income tax

	2022	2021
Gross profit (loss)	22,107	15,364
Difference between gross profit (loss) and income tax base	-10,117	39,033
- differences between gross profit and taxable income resulting from costs that are not tax-deductible under tax regulations and revenue not classified as revenue under tax regulations and additional costs and revenue	14,041	82,051
- other differences (including loss brought forward)	-24,158	-43,018
Income/Loss	11,990	54,397
Income tax base	11,991	55,627
Income tax at the applicable rate of 19%	2,279	10,569
Current income tax	2,279	10,569

Income tax according to effective interest rate

	2022	2021
Gross profit (loss)	22,107	15,364
Income tax at the applicable rate of 19%	4,200	2,918
Effect of tax recognition of:	-1,913	7,374
- Use of tax losses brought forward	4,510	8,173
- Costs that are not tax-deductible under tax regulations	11,491	9,301
- Revenue not classified as revenue under tax regulations	6,435	-15,579
- Tax-deductible expenses not classified as balance sheet expenses	2,842	9,508
- Taxable revenue not classified as balance sheet revenue	383	175
Revaluation of deferred tax assets (current year loss)	-8	277
Deferred tax	2,540	-7,026
Income tax according to effective tax rate	4,819	3,543
Effective tax rate	22%	23%

Current tax assets and liabilities

	31-12-2022	31-12-2021
Current tax assets		
Tax refundable	0	32
Current tax liabilities		
Tax payable	131	1,098

Deferred tax balance

	2022	2021
Deferred tax balance at the beginning of the period	21,494	14,428
Additions resulting from purchase of company shares	1,116	0
Temporary differences relating to deferred tax assets:	60,361	52,431
Provisions for expenses and accruals	31,906	25,372
Receivables discounting	641	182
Operating lease liabilities	3,565	3,050
Write-downs	860	946
Bonds and insurances accounted for over time	2,486	2,651
Tax work in progress	11,518	10,562
Valuation of long-term contracts	9,078	9,413
Other	307	255
Temporary differences relating to deferred tax liabilities:	42,701	35,079
Valuation of long-term contracts	24,357	20,358
Difference between the carrying and tax amount of property, plant and equipment and intangible assets	15,496	13,546
Payables discounting	2,848	1,175
Unused tax losses and other tax credits carried forward:	128	4,142
Tax losses	128	4,142
Total temporary differences relating to deferred tax assets:	60,489	56,573
Total temporary differences relating to deferred tax liabilities:	42,701	35,079
Deferred tax balance at the end of the period	17,788	21,494
Change in deferred tax, including:	-2,590	7,066
- recognised in income	-2,540	7,026
- recognised in equity	-50	40

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:

	2022	2021
Actuarial gains (losses) relating to specific benefit schemes	262	-107
Deferred tax	-50	40

Amount recognised in other comprehensive income	212	-67
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2.9. Operating segments

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

- Construction;
- Design; and
- Sales.

The segments comply jointly with the following rules:

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

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

The construction activities conducted by Energopol include the execution of road works, bridge and road structures, reinforced concrete structures, hydrotechnical and water and sewage works.

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

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

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

Operating segments results in 2022:

	Construction	Sales	Design	Exclusions	Total
Sales revenue	837,715	87,688	9,731	-13,714	921,420
including:					
Revenue from external customers	831,060	77,780	8,469	4,111	921,420
Inter-segment revenues	6,655	9,908	1,262	-17,825	0
including:					
Revenue from construction contracts	811,070	0	9,731	-1,256	819,545
Revenue from the provision of services	11,637	41	0	-2,549	9,129
Revenue from the sale of goods, raw and other materials	15,008	87,647	0	-9,909	92,746
Gross profit	31,115	10,934	1,263	-526	42,786
Financial income / expenses	5,558	-901	42	-727	3,972
Interest received	1,434	0	0	-306	1,128
Interest paid	-1,277	-563	-55	306	-1,589
Pre-tax profit	15,468	6,830	-240	49	22,107
Corporate income tax	3,706	1,313	-129	-71	4,819

Net profit	11,762	5,517	-111	120	17,288
Depreciation and amortisation	13,573	50	121	21	13,765
Property, plant and equipment	69,585	60	44	2,439	72,128
Non-current assets	203,210	294	261	-4,332	199,433
Total assets	642,058	32,934	11,879	-12,177	674,694
Total liabilities	463,075	26,072	12,255	-7,476	493,926

The Group operated in the territory of Poland in 2022. In addition, the Group earned the revenue in the total amount of PLN 711 thousand from the sale of materials to Germany.

Operating segments results in 2021:

	Construction	Sales	Design	Exclusions	Total
Sales revenue	781,383	73,126	9,602	-12,661	851,450
including:					
Revenue from external customers	780,715	63,291	6,946	498	851,450
Inter-segment revenues	668	9,835	2,656	-13,159	0
including:					
Revenue from construction contracts	756,660	0	9,602	-2,150	764,112
Revenue from the provision of services	11,680	63	0	-676	11,067
Revenue from the sale of goods, raw and other materials	13,043	73,063	0	-9,835	76,271
Gross profit	29,912	3,947	1,509	-332	35,036
Financial income / expenses	1,727	-519	-24	16	1,200
Interest received	106	0	0	-82	24
Interest paid	-990	-223	-21	81	-1,153
Pre-tax profit	15,437	704	-555	-222	15,364
Corporate income tax	3,296	133	157	-43	3,543
Net profit	12,141	571	-712	-179	11,821
Depreciation and amortisation	12,660	34	158	41	12,893
Property, plant and equipment	64,623	18	77	0	64,718
Non-current assets	175,213	162	423	-286	175,512
Total assets	552,172	22,608	11,775	-9,048	577,507
Total liabilities	386,502	21,099	12,040	-8,537	411,104

The Group operated in Poland in 2021. In addition, the Group earned the revenue of PLN 594 thousand from the sale of materials to Russia and Germany.

3. Contracts, retentions, provisions, advance payments and accrued liabilities

3.1. Construction contracts

	31-12-2022	31-12-2021
Assets (selected items)	240,264	157,855
- Valuation of long-term construction contracts	128,191	107,149
- Advance payments made in connection with performed contracts	11,893	3,425
- Retentions on construction contracts retained by customers	38,550	16,922
- Inventories	61,630	30,359
Liabilities (selected items)	235,803	200,329

- Valuation of long-term construction contracts	47,775	49,539
- Provisions for contract costs	86,920	68,636
- Advance payments received in connection with performed contracts	30,191	6,737
- Retentions on construction contracts retained for suppliers	37,563	41,828
- Provisions for warranty claims	18,572	19,059
- Provisions for expected losses on contracts	14,782	14,530

3.2. Retentions on construction contracts

	31-12-2022	31-12-2021
Retained by customers – to be repaid after 12 months	21,882	7,431
Retained by customers – to be repaid within 12 months	16,668	9,491
Total retentions on construction contracts retained by customers	38,550	16,922
Retained for suppliers – to be repaid after 12 months	16,337	24,068
Retained for suppliers – to be repaid within 12 months	21,226	17,760
Total retentions on construction contracts retained for suppliers	37,563	41,828

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

Discount of long-term retentions

	31-12-2022	31-12-2021
Discount of long-term retentions on construction contracts retained by customers	3,363	953
Discount of long-term retentions on construction contracts retained for suppliers	7,030	3,229

	2022	2021
Financial income from the discount on retentions	1,451	976
Financial expenses from the discount on retentions	34	0
Deferred tax	269	185
Net effect on the statement of comprehensive income	1,148	791

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

	31-12-2022	31-12-2021
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 2022 used for the discounting of retentions was 7.7% (3% in 2021).

3.3. Provisions

Provisions	01-01-2022	Created	Used	Released	Reclassified	31-12-2022	Item
Long-term provisions:	18,434	3,885	122	3,517	-877	17,803	
Provisions for employee benefits	1,864	471	0	534	0	1,801	Liabilities under employee benefits (long-term)
Provisions for warranty claims	16,570	3,414	122	2,983	-877	16,002	Long-term provisions
Other provisions	0	0	0	0	0	0	Long-term provisions
Short-term provisions:	48,491	43,465	21,204	16,213	877	55,416	
Provisions for employee benefits	31,441	32,077	20,385	5,083	0	38,050	Liabilities under employee benefits (short-term)
Provisions for warranty claims	2,489	697	802	691	877	2,570	Short-term provisions
Provision for loss on contracts	14,530	10,691	0	10,439	0	14,782	Short-term provisions
Other provisions	31	0	17	0	0	14	Short-term provisions
Total provisions:	66,925	47,350	21,326	19,730	0	73,219	

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

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	01-01-2021	Created	Used	Released	Reclassified	31-12-2021	Item
Long-term provisions:	16,497	3,229	19	45	-1,228	18,434	
Provisions for employee benefits	1,411	498	0	45	0	1,864	Liabilities under employee benefits (long-term)
Provisions for warranty claims	15,086	2,731	19	0	-1,228	16,570	Long-term provisions
Other	0	0	0	0	0	0	Long-term

provisions							provisions
Short-term provisions:	32,586	40,367	19,503	6,187	1,228	48,491	
Provisions for employee benefits	22,713	28,958	19,215	1,015	0	31,441	Liabilities under employee benefits (short-term)
Provisions for warranty claims	1,764	100	271	332	1,228	2,489	Short-term provisions
Provision for loss on contracts	8,072	11,298	0	4,840	0	14,530	Short-term provisions
Other provisions	37	11	17	0	0	31	Short-term provisions
Total provisions:	49,083	43,596	19,522	6,232	0	66,925	

3.4. Write-downs and allowances

Change in write-downs and allowances

Write-downs and allowances	01-01-2022	Creation	Use	Release	31-12-2022
Write-downs and allowances:	30,476	22,981	2,269	15,008	36,180
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	1	0	0	0	1
Allowances for trade receivables in connection with the increase of credit risk	28,642	21,197	2,269	14,780	32,790
Allowances for trade receivables for expected credit losses	489	0	0	180	309
Write-downs of retentions	11	0	0	0	11
Write-downs of advance payments	47	0	0	0	47
Write-downs of shares	231	20	0	0	251
Write-downs of loans	285	1,764	0	48	2,001
Total:	30,476	22,981	2,269	15,008	36,180

Allowances for trade receivables of PLN 32.8m include:

- ❖ Debit notes issued by the Group for penalties, damages and substitute performance of PLN 31m. The amount is for presentation purposes only because the notes are not the Group's revenue at the date of issue. The major items include the notes of PLN 23.8m issued in past years.
- ❖ Receivables under court and enforcement cases of PLN 1.1m.
- ❖ Doubtful debt of PLN 0.7m 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 239 thousand and the creation of allowances of PLN 19 thousand. The remaining balance is for presentation purposes only and results, *inter alia*, from the debit notes issued by the Group for the penalties and damages that are not the Group's revenue at the date of issue.

Comparative information:

Write-downs and allowances	01-01-2021	Creation	Use	Release	31-12-2021
Write-downs and allowances:	26,773	8,683	4,850	130	30,476
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	191	0	190	0	1
Allowances for trade receivables in connection with the increase of credit risk	24,914	8,360	4,619	13	28,642
Allowances for trade receivables for expected credit losses	189	300	0	0	489
Write-downs of retentions	11	3	0	3	11
Write-downs of advance payments	47	0	0	0	47
Write-downs of shares	211	20	0	0	231
Write-downs of loans	440	0	41	114	285
Total:	26,773	8,683	4,850	130	30,476

3.5. Advance payments

	31-12-2022	31-12-2021
Advance payments made in connection with performed contracts	11,893	3,425
Other advance payments	197	47
Write-downs of advance payments	-47	-47
Total	12,043	3,425

	31-12-2022	31-12-2021
Advance payments received in connection with performed contracts	30,191	6,737
Other advance payments	1,026	0
Total	31,217	6,737

3.6. Accrued liabilities

	31-12-2022	31-12-2021
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Provisions for contract costs	86,920	68,636
Other accrued liabilities	4,145	1,622
Total	91,065	70,258

4. Trade and other receivables and payables

4.1. Trade and other receivables

	31-12-2022	31-12-2021
Trade receivables	199,577	155,636
Allowances for trade receivables in connection with the increase of credit risk	-32,790	-28,642
Allowance for trade receivables for expected credit losses	-309	-489
Receivables from the government budget other than corporate income tax	2	632
Other receivables	4,157	4,142
Total trade and other receivables	170,637	131,279

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

Ageing analysis of trade receivables

	31-12-2022	31-12-2021
Not past due receivables	164,383	124,022
Receivables that are past due but not impaired	2,409	2,978
1-30 days	992	2,142
31-60 days	423	12
61-90 days	69	1
91-180 days	0	3
181-360 days	106	321
360 + days	819	499
Past due receivables for which allowances were made	32,785	28,636
1-30 days	68	231
31-60 days	47	1
61-90 days	92	49
91-180 days	9	165
181-360 days	7,070	4,038
360 + days	25,499	24,152
Total trade receivables (gross)	199,577	155,636
Allowances for trade receivables	-32,790	-28,642
Total trade receivables (net)	166,787	126,994

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

	31-12-2022	31-12-2021
Counterparty A	77,318	101,121
Counterparty B	21,601	

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

4.2. Trade and other payables

	31-12-2022	31-12-2021
Trade payables	135,902	117,208
Liabilities to the government budget other than corporate income tax	14,476	17,466
Other payables	298	242
Total trade and other payables	150,676	134,916

Ageing analysis of trade payables

	31-12-2022	31-12-2021
Not past due payables	110,294	116,375
Past due payables	25,608	833
1-30 days	25,025	646
31-60 days	109	40
61-90 days	0	0
91-180 days	135	1
181-360 days	193	0
360 + days	146	146
Total trade payables	135,902	117,208

5. Equity

5.1. Share capital

At 31 December 2022, the amount of the registered share capital disclosed in the consolidated financial statements was PLN 5,757,520.75.

Share capital as at 21 March 2023

(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 2022, the share capital structure was the same as at 21 March 2023.

5.2. Profit (loss) per share

(PLN)

	2022	2021
Basic profit (loss) per share	0.71	0.51
Diluted profit (loss) per share	0.71	0.51

Basic profit (loss) per share

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

(PLN)

	2022	2021
Profit (loss) per share for the financial year	0.71	0.51
Total profit (loss) used in the calculation of basic profit per share	16,391,696.50	11,763,413.67
Weighted average number of ordinary shares used in the calculation of profit (loss) per share	23,030,083	23,030,083

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

Diluted profit per share

There are no diluting instruments.

5.3. Share premium account

	2022	2021
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 2014-2022.

5.4. Treasury shares

At this report preparation date, the Company holds 264,652 treasury shares whose purchase value is 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 buy-back was effected 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 is discussed in detail in the note no. 25 of the consolidated financial statements for the financial year ended 31 December 2015.

5.5. Retained earnings

	2022	2021
Balance at the beginning of the year	69,287	57,589
Net profit distribution	11,765	4,260
Reserve funds	11,765	4,260
Capital reserve	0	0
Coverage of loss brought forward	0	0
Profit (loss) of the current year	16,392	11,765
Other net comprehensive income	212	-67
Payment of dividend for the prior year	-3,415	0
Balance at the end of the year	82,476	69,287

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

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

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

6. Debt and management of capital and liquidity

6.1. Loans and bank credits

	31-12-2022	31-12-2021
Long-term	8,696	0
Bank credits	0	0
Loans received	8,696	0
Short-term	19,639	7,964
Bank credits	3,050	3,250
Loans received	16,589	4,714
Total	28,335	7,964

Summary of loan and credit agreements

As at 31 December 2022

No.	Bank	Description	Principal/limit according to the agreement as at 31-12-2022	Amount of available loans/credits as at 31-12-2022	Use as at 31-12-2022	Interest	Repayment date
1	mBank S.A.	Overdraft	10,000	10,000	0	ON WIBOR + margin	July 2023
2	mBank S.A. (i)	Master agreement	25,000		11,770	1M WIBOR + margin	May 2023
	including:	sublimit for bonds	25,000	13,230	11,770		
		non-revolving working capital credit	25,000	13,230	0		
3	Alior Bank S.A.	Multicurrency credit limit agreement	30,000		0	1M WIBOR + margin	June 2023
	including:	sublimit for bonds	30,000	30,000	0		
		overdraft	2,000	2,000	0		
4	Agencja Rozwoju Przemysłu S.A.	Loan agreement	30,000	5,000	25 000	1M WIBOR + margin	August 2025
5	mBank S.A.	Working capital credit	3,050	0	3 050	1M WIBOR + margin	May 2023
6	Magdalena Nowak	Loan agreement	285	0	285	3M WIBOR + margin	indefinite
	Total amount of available loans and credits			30,230			
	Total debt under loans and credits				28,335		
	Total use for bonds				11,770		

- (i) ZUE is able to use the limit for both working capital credit and bank bonds. The current use concerns the bonds.

Types of security and liabilities under 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 plot 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. Multicurrency credit limit agreement:

- a) Promissory note with declaration;
- b) Assignment of claims under contracts;
- c) Statement on submission to enforcement;
- d) Power of attorney to the bank account.

4. Loan agreement:

- a) Assignment of claims under contracts;
- b) Statement on submission to enforcement;
- c) Registered pledge on non-current assets – machinery and equipment owned by the Company;
- d) Contractual mortgage up to PLN 45,000 thousand on the plot in Cracow;
- e) Assignment of rights under insurance policy and building insurance policy.

5. Working capital credit:

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

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

- Agencja Rozwoju Przemysłu – **Loan agreement (item 3 of comparative information)** – the loan granted on 19 November 2019 was repaid by the Company in full on 29 June 2022;
- mBank – **Working capital credit (item 5)** – an annex was signed by a related company on 26 May 2022 whereby the maturity date was extended by one year;
- mBank – **Master Agreement (item 2)** – an annex was signed by the Company on 31 May 2022 whereby the maturity date was extended by one year;
- Alior Bank – **Credit Agreement (item 3)** – Multicurrency Credit Limit Agreement up to PLN 30m was signed by the Company on 29 June 2022 (Limit). The Company may apply for bonds up to the total Limit amount. In addition, an overdraft up to PLN 2m will be provided as part of the Limit. The Limit is revolving and will be available until 27 June 2023. The Limit can be extended;
- mBank – **Overdraft (item 1)** – an annex was signed by the Company on 7 July 2022 whereby the repayment date was extended by one year;
- BNP Paribas – **Premium multipurpose line of credit agreement (item 4 of the comparative information)** – expiry of the agreement;
- Agencja Rozwoju Przemysłu – **Loan agreement (item 4)** – the Loan Agreement was entered into on 15 November 2022 with Agencja Rozwoju Przemysłu S.A. The loan of up to PLN 30,000 thousand will be used to finance day-to-day operations.

Comparative information:

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:	sublimit 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 S.A.	Premium multipurpose line of credit agreement	65,000		0	1M WIBOR + margin	July 2022
	including:	sublimit for bonds	65,000	65,000	0		
		Overdraft	4,000	4,000	0		
5	mBank S.A.	Working capital credit	3,250	0	3,250	1M WIBOR + margin	May 2022
6	Magdalena Nowak (ii)	Loan agreement	271	0	271	3M WIBOR + margin	indefinite
Total amount of available loans and credits				38,900			
Total debt under loans and credits					7,964		
Total use for bonds					100		

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

6.2. Leases

Lease liabilities

	31-12-2022	31-12-2021
Long-term lease liabilities	15,212	14,248
Short-term lease liabilities	5,070	6,289
Lease liabilities associated with assets held for sale	0	366
Total	20,282	20,903

No leaseback agreements were signed by the Group in the reporting period.

In the reporting period, the Group's lease liabilities increased by PLN 3,334 thousand (including the new leases of the total amount of PLN 3,082 thousand). In addition, the Group purchased the leased assets with the total net value of PLN 9,425 thousand. Following the purchase transactions, the assets were reclassified from right-of-use assets to property, plant and equipment.

	Minimum lease payments	Present value of minimum lease payments
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	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Not later than one year	6,157	6,986	5,070	6,289
Later than one year and not later than five years	8,665	12,418	5,564	7,638
Later than five years	41,754	23,019	9,648	6,976
Less: future finance charges	-36,294	-21,520	0	0
Present value of minimum lease payments	20,282	20,903	20,282	20,903

General terms of lease

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

Short-term and low value leases

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

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

The costs associated with short-term and low value leases amounted to PLN 5,964 thousand in 2022 and to PLN 4,401 thousand in 2021.

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

No.	Note	2022	2021
2.2.	Depreciation and amortisation	2,811	3,219
2.6.	Financial expenses – interest on leases	1,190	782

No.	Note	31-12-2022	31-12-2021
6.2.	Leases – lease liabilities	20,282	20,537
6.2.	Lease liabilities associated with assets held for sale	0	366
7.4.	Right-of-use assets	33,234	41,510

6.3. Management of capital

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

	31-12-2022	31-12-2021
Long- and short-term loans and bank credits	28,335	7,964
Long- and short-term lease liabilities	20,282	20,537
Lease liabilities associated with assets held for sale	0	366
Long- and short-term other financial liabilities	36	36
Total financial liabilities	48,653	28,903
Cash and cash equivalents	63,251	108,736

Net debt	-14,598	-79,833
Equity	180,768	166,403
Net debt to equity ratio	-8.08%	-47.98%

Negative net debt is due to the fact that total financial liabilities at the end of 2022 fell below the amount of cash at the Group.

The Group uses own resources, credits, loans, leases, trade credit, prepaid deliveries 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	01-01-2022	Cash flows (change)	Change on gain/loss of control	Change on foreign exchange gains/losses	Change on conclusion of new leases	Reclassification/ other changes	31-12-2022
Long-term loans and bank credits	0	8,696	0	0	0	0	8,696
Long-term lease liabilities	14,248	0	0	0	2,094	-1,130	15,212
Long-term other financial liabilities	0	0	0	0	0	0	0
Short-term loans and bank credits	7,964	11,675	0	0	0	0	19,639
Short-term lease liabilities	6,289	-6,727	0	0	988	4,520	5,070
Lease liabilities associated with assets held for sale	366	0	0	0	0	-366	0
Short-term other financial liabilities	36	0	0	0	0	0	36
Total financing liabilities	28,903	13,644	0	0	3,082	3,024	48,653

6.4. Financial risk management

The main financial instruments used by the Group include:

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

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

Foreign exchange risk

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

Foreign exchange risk – sensitivity to changes

To analyse the sensitivity to exchange rate changes, the reasonably possible change in foreign exchange rates was assessed, on the basis of historical changes and the Group's experience and knowledge of financial markets, at -5% / +5% for EUR/PLN exchange rate as at 31 December 2022.

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 2022

	Currency	Nominal value at the end of the reporting period	Depreciation of PLN	Appreciation of other currencies
			+5%	-5%
Cash	EUR	27	1	-1
	USD	172	9	-9
	HRK	1	0	0
	BGN	2	0	0
	RON	45	2	-2
Trade and other payables	EUR	3,489	-174	174
Trade and other payables	RON	12	-1	1
Trade and other receivables	EUR	631	32	-32
Trade and other receivables	RON	3,784	189	-189
Gross effect on profit or loss of the period and net assets			58	-58
Deferred tax			-11	11
Total			47	-47

The Group had no hedging currency futures as at 31 December 2022 or 31 December 2021.

Interest rate risk

The Group is exposed to interest rate risk mainly because it uses such instruments as leases, multi-purpose lines of credit and loans to finance day-to-day operations. These financial instruments are based on variable interest rates and expose the Group to the risk of cash flow fluctuations. The hedging activity is assessed on an ongoing basis so that the Group can adapt to the current situation and be prepared 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 Group's experience and knowledge of financial markets, at -1 / +1 pp at 31 December 2022. 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 2022.

	Amount at the end of the reporting period	31-12-2022	
		+100 bp	-100 bp
Long-term retentions on construction contracts (discount):			
– recognised in assets (present value)	21,882	-329	349
– recognised in liabilities (present value)	16,337	679	-724
Cash at banks	63,251	633	-633
Bank credits and loans	28,335	-283	283
Lease liabilities	20,282	-203	203
Gross effect on profit or loss of the period and net assets		538	-563

Deferred tax		-102	107
Total		434	-456

Price risk

The Group is exposed to price risk relating to the increase in prices of the most popular products and raw materials such as concrete, aggregates, steel elements (including tram and rail traction network posts, lamp posts, rails or crossovers) and copper and aluminium elements (including power cables, lines and contact wires) and, given a big number of machines, liquid fuels (including diesel oil and petrol). Changes in prices of materials or labour costs may contribute to a change in service fees charged by subcontractors. Prices contained in contracts with investors remain fixed throughout the term of such contracts (usually from 6 to 36 months). However, contracts with subcontractors may be concluded at later dates as the works progress.

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

Credit risk

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

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

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

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

Liquidity risk

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

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

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

6.5. Cash and cash equivalents

	31-12-2022	31-12-2021
Cash on hand and at banks	63,251	108,736
Bank deposits up to three months	0	0
Total	63,251	108,736

The cash does not include the cash on escrow accounts attributable to consortium members. The Group believes that the cash cannot be defined as an asset and is not presented in the balance sheet. As at 31 December 2022, the cash on escrow accounts maintained by ZUE was PLN 13,974 thousand, including PLN 3,198 thousand attributable to ZUE. As at 31 December 2021, the cash on escrow accounts was PLN 6,318 thousand, including PLN 3,663 thousand attributable to ZUE.

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 2022	0	23,237	48,272	67,201	2,486	141,196	565	65	141,826
Additions	0	81	2,175	2,024	44	4,324	1,958	62	6,344
Additions – purchase of company shares	0	3,247	6,059	3,399	884	13,589	0	0	13,589
Reclassification – right-of-use*	0	0	3,326	9,220	0	12,546	0	0	12,546
Reclassification – investment property	0	-467	0	0	0	-467	0	0	-467
Transfer to non-current assets	0	0	0	0	0	0	2,220	66	2,286
Sale/Liquidation	0	2,780	2,062	2,922	71	7,835	0	0	7,835
Reclassification from assets held for sale	0	3,850	0	0	0	3,850	0	0	3,850
Balance at 31 December 2022	0	27,168	57,770	78,922	3,343	167,203	303	61	167,567

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 2022	0	9,581	27,094	38,420	2,013	77,108	0	0	77,108
Additions – purchase of company shares	0	1,791	5,992	3,338	791	11,912	0	0	11,912
Elimination on disposal of assets	0	1,346	1,994	2,745	72	6,157	0	0	6,157
Reclassification – right-of-use* - depreciation expense	0	0	1,303	1,765	0	3,068	0	0	3,068
Depreciation expense	0	576	3,270	5,940	151	9,937	0	0	9,937
Reclassification – investment property - depreciation expense	0	-445	0	0	1	-444	0	0	-444
IFRS presentation adjustment – prior years' depreciation	0	0	794	380	142	1,316	0	0	1,316
Reclassification to assets held for sale	0	1,331	0	0	0	1,331	0	0	1,331
Balance at 31 December 2022	0	11,488	34,871	46,338	2,742	95,439	0	0	95,439

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 2022	0	13,656	21,178	28,781	473	64,088	565	65	64,718
Balance at 31 December 2022	0	15,680	22,899	32,584	601	71,764	303	61	72,128

* Purchase at the end of lease and leaseback.

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

As at 31 December 2022, the amount of net liabilities incurred to purchase property, plant and equipment was PLN 127 thousand. As at 31 December 2022, the gross carrying amount of fully depreciated property, plant and equipment still used by the Group was PLN 20,803 thousand.

Assets pledged as security

The types of security for the bank agreements concerning property, plant and equipment are discussed in the note 6.1.

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 2021	0	23,237	48,607	59,951	2,425	134,220	324	0	134,544
Additions	0	0	1,964	1,920	84	3,968	3,088	98	7,154
Reclassification – right-of-use*	0	0	1,767	8,585	0	10,352	-735	0	9,617
Transfer to non-current assets	0	0	0	0	0	0	1,990	33	2,023
Sale/Liquidation	0	0	4,066	3,255	23	7,344	122	0	7,466
Balance at 31 December 2021	0	23,237	48,272	67,201	2,486	141,196	565	65	141,826

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	27,354	32,725	1,896	70,943	0	0	70,943
Elimination on disposal of assets	0	0	3,408	2,613	25	6,046	0	0	6,046
Reclassification – right-of-use* -	0	0	442	2,763	0	3,205	0	0	3,205

depreciation expense									
Depreciation expense	0	613	2,706	5,545	142	9,006	0	0	9,006
Balance at 31 December 2021	0	9,581	27,094	38,420	2,013	77,108	0	0	77,108

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	14,269	21,253	27,226	529	63,277	324	0	63,601
Balance at 31 December 2021	0	13,656	21,178	28,781	473	64,088	565	65	64,718

* 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 2022	126	5,713	5,038	0	0	0	10,877	49	0	10,926
Additions	3	111	0	0	0	0	114	264	0	378
Additions – purchase of company shares	0	16	5,211	0	0	0	5,227	0	0	5,227
Reclassification from property, plant and equipment	0	-16	467	0	0	0	451	0	0	451
IFRS presentation adjustment	0	5,593	-1,291	0	0	0	4,302	0	0	4,302
Sale/Liquidation	0	0	0	0	0	0	0	0	0	0
Balance at 31 December 2022	129	11,417	9,425	0	0	0	20,971	313	0	21,284

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	TOTAL	Non-current assets under	Prepaid non-current assets under	TOTAL
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								construction	construction	
Balance at 1 January 2022	0	2,290	2,491	0	0	0	4,781	0	0	4,781
Additions – purchase of company shares	0	16	0	0	0	0	16	0	0	16
IFRS presentation adjustment	0	-16	-444	0	0	0	-460	0	0	-460
Depreciation expense	0	163	244	0	0	0	407	0	0	407
Reclassification from property, plant and equipment	0	0	445	0	0	0	445	0	0	445
Balance at 31 December 2022	0	2,453	2,736	0	0	0	5,189	0	0	5,189

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 2022	126	3,423	2,547	0	0	0	6,096	49	0	6,145
Balance at 31 December 2022	129	8,964	6,689	0	0	0	15,782	313	0	16,095

The investment property as at 31 December 2022 included the real estate in Kościelisko and Cracow. The investment property comprises buildings with land and leasehold land. The Group's investment property is held either as freehold or leasehold interests.

No impairment losses were recognised by the Group 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. In 2022, the income from the lease of investment property in Cracow was PLN 50 thousand. Operating expenses relating to investment property in Kościelisko amounted to PLN 474 thousand in 2022 (PLN 502 thousand in 2021). The expenses associated with the investment property in Cracow amounted to PLN 47 thousand.

Assets pledged as security

The types of security for the bank agreements concerning investment property are discussed in the note 6.1.

Comparative information:

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

Adjustment	0	-1,000	914	0	0	0	-86	22	0	-64
Sale/Liquidation	0	0	0	0	0	0	0	0	0	0
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
Elimination on disposal of assets	0	0	0	0	0	0	0	0	0	0
Adjustment	0	0	-64	0	0	0	-64	0	0	-64
Depreciation expense	0	212	167	0	0	0	379	0	0	379
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

7.3. Intangible assets

Structure of intangible assets

	31-12-2022	31-12-2021
Acquired concessions, patents, licenses and similar assets, including:	2,491	2,716
- software	2,491	2,716

Movement in intangible assets

Intangible assets – software	31-12-2022	31-12-2021
Gross value		
Balance at the beginning of the period	6,936	6,096
Additions	385	932
Sale/Liquidation	0	92
Balance at the end of the period	7,321	6,936
Amortisation and impairment		
Balance at the beginning of the period	4,220	4,023
Amortisation expense	610	289
Sale/Liquidation	0	92
Balance at the end of the period	4,830	4,220
Net carrying amount		
Balance at the beginning of the period	2,716	2,073
Balance at the end of the period	2,491	2,716

No impairment losses were recognised by the Group in 2022 or 2021. As at 31 December 2022, the gross carrying amount of fully amortised intangible assets still in use was PLN 4,379 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 2022	0	14,931	0	5,543	29,123	0	49,597	0	0	49,597
Conclusion of new contracts	0	0	0	0	3,082	0	3,082	0	0	3,082
Changes on amendments to contracts	0	0	0	0	141	0	141	0	0	141
Reclassification – right of use*	0	0	0	-3,326	-9,220	0	-12,546	0	0	-12,546
Transfer to right-of-use assets	0	0	0	0	336	0	336	0	0	336
Changes on the shortening of a contract	0	913	0	0	0	0	913	0	0	913
Balance at 31 December 2022	0	15,844	0	2,217	22,790	0	40,851	0	0	40,851

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 2022	0	1,621	0	1,389	5,077	0	8,087	0	0	8,087
Depreciation expense	0	202	0	355	2,254	0	2,811	0	0	2,811
Reclassification – right of use* - depreciation expense	0	0	0	-1,303	-1,765	0	-3,068	0	0	-3,068
Elimination on the shortening of a contract	0	0	0	0	-305	0	-305	0	0	-305
Reclassification from assets held for sale	0	92	0	0	0	0	92	0	0	92
Balance at 31 December 2022	0	1,915	0	441	5,261	0	7,617	0	0	7,617

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 2022	0	13,310	0	4,154	24,046	0	41,510	0	0	41,510
Balance at 31 December 2022	0	13,929	0	1,776	17,529	0	33,234	0	0	33,234

* Purchase at the end of lease and leaseback.

Assets pledged as security

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

Comparative information:

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	31,002	0	49,990	0	0	49,990
Conclusion of new contracts	0	0	0	1,486	5,861	0	7,347	0	0	7,347
Changes on amendments to contracts	0	1,767	0	0	130	0	1,897	0	0	1,897
Reclassification – right of use *	0	0	0	-1,767	-8,585	0	-10,352	735	0	-9,617
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	29,123	0	49,597	0	0	49,597

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	1,211	5,434	0	8,090	0	0	8,090
Depreciation expense	0	176	0	620	2,423	0	3,219	0	0	3,219
Reclassification – right of use* - depreciation expense	0	0	0	-442	-2,763	0	-3,205	0	0	-3,205
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	1,389	5,077	0	8,087	0	0	8,087

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	4,613	25,568	0	41,900	0	0	41,900
Balance at 31 December 2021	0	13,310	0	4,154	24,046	0	41,510	0	0	41,510

* 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 2022	0	913	3,850	0	0	0	4,763
Additions	0	0	0	0	0	0	0
Liquidations	0	0	0	0	0	0	0
Reclassification to property, plant and equipment	0	0	-3,850	0	0	0	-3,850
Reclassification to right-of-use assets	0	-913	0	0	0	0	-913
Balance at 31 December 2022	0	0	0	0	0	0	0

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2022	0	92	1,331	0	0	0	1,423
Elimination on disposal of assets	0	0	0	0	0	0	0
Reclassification to property, plant and equipment	0	0	-1,331	0	0	0	-1,331
Reclassification to right-of-use assets	0	-92	0	0	0	0	-92
Depreciation expense	0	0	0	0	0	0	0
Balance at 31 December 2022	0	0	0	0	0	0	0

Net carrying amount	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2022	0	821	2,519	0	0	0	3,340
Balance at 31 December 2022	0	0	0	0	0	0	0

There are no assets held for sale as at 31 December 2022 and, accordingly, there are no lease liabilities associated with assets held for sale. As at 31 December 2021, assets held for sale included the real estate situated in Poznań and the amount of lease liabilities on assets held for sale was PLN 366 thousand.

The real estate situated in Poznań had not been sold as a result of which it was reclassified by the Group to property, plant and equipment. Despite the extension of the period required to complete the transaction, the real estate was not sold due to the circumstances beyond the Group's control.

Comparative information:

Gross value	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2021	0	913	3,850	0	0	0	4,763
Additions	0	0	0	0	0	0	0
Liquidations	0	0	0	0	0	0	0
Balance at 31 December 2021	0	913	3,850	0	0	0	4,763

Depreciation	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2021	0	92	1,331	0	0	0	1,423
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	92	1,331	0	0	0	1,423

Net carrying amount	Freehold land	Leasehold land	Buildings	Plant and equipment	Vehicles	Other	Total
Balance at 1 January 2021	0	821	2,519	0	0	0	3,340
Balance at 31 December 2021	0	821	2,519	0	0	0	3,340

7.6. Goodwill

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

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

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

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

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

At cost	31-12-2022	31-12-2021
Goodwill of PRK	31,172	31,172
Goodwill of BPK Poznań	1,474	1,474
Impairment losses (BPK Poznań)	-1,474	-1,474
Balance at the end of the reporting period	31,172	31,172

Annual impairment test

The test was carried out using the FCFF approach in a five-year time horizon. According to the Group's principles, the recoverable amount of an asset generating 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 14.4%.

After it had considered external circumstances influencing a long-term market capitalization of the Company below the carrying amount, the Group carried out the tests for the impairment of the Company's assets as at 31 December 2022.

The impairment tests carried out as at 31 December 2022 according to *IAS 36 Impairment of Assets* revealed no indication of impairment of the carrying amount of the Company's assets.

Sensitivity to changes in assumptions

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

7.7. Investments in subordinates

At the end of the reporting period, ZUE holds 100% of shares in Railway Technology International Sp. z o.o. of Cracow. At present, the company does not conduct any operating activities.

Company name	Core business	Registered office and principal place of business	Interest %		Value at historical	
			31-12-2022	31-12-2021	31-12-2022	31-12-2021
Railway Technology International Sp. z o.o.	Holding activities	Cracow	100%	100%	579	231
Total investments in subordinates					579	231
Write-down of RTI shares (cumulative)					251	231
Total investments in subordinates net of write-downs					328	0

7.8. Other financial assets

	Current		Non-current	
	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Debt instruments	0	0	0	0
Other	0	105	62	42
Total	0	105	62	42

7.9. Other assets

	31-12-2022	31-12-2021
Deferred expenses	1,492	554
Other receivables	126	62
Total	1,618	616

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

7.10. Advanced loans

	31-12-2022	31-12-2021
Loans advanced to third parties	6,118	285
Impairment losses	-2,001	-285
Total	4,117	0

Advanced loans include principal and interest charged at the end of the reporting period.

7.11. Inventories

	31-12-2022	31-12-2021
Goods, raw and other materials	81,204	37,056
Work in progress	463	766
Total	81,667	37,822

The security for liabilities created on inventories at 31 December 2022 and 31 December 2021 amounted to PLN 4,000 thousand.

No write-downs of inventories were recognised in the reporting period. The amount of write-downs was PLN 1 thousand as at 31 December 2022 and 31 December 2021.

7.12. Other financial liabilities

	31-12-2022	31-12-2021
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:

	31-12-2022	31-12-2021
Pension and retirement gratuities and death allowances, including:	2,148	2,116
– present amount of obligation at the end of the reporting period	2,148	2,116
– 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
Other employee benefits	50,008	41,805
– provision for unused leaves	8,160	7,919
– provision for bonuses	29,542	23,270
– salaries and wages	6,062	5,349
– social security and other benefits	6,244	5,267
Total liabilities under retirement and other benefits	52,156	43,921
including:		
– long-term	1,801	1,864
– short-term	50,355	42,057

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 employee's seniority.

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

	31-12-2022	31-12-2021
Discount rate	6.87%	3.41%
Expected increase in salaries and wages	4.50%	3.50%

Pension and retirement gratuities and death allowances

	2022	2021
Present amount of obligation at the beginning of the period	2,116	1,499
Additions – purchase of company shares	111	0
Interest expense	86	32
Current service cost	228	196
Past service cost	0	440
Benefits paid	-108	-153
Actuarial (gains) / losses	-285	102
Present amount of obligation at the end of the period	2,148	2,116

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

	2022	2021
Current service cost	228	196
Interest expense	86	32
Actuarial (gains) / losses to be recognised in the period	-285	102
Past service cost	0	440
Costs recognised in the statement of comprehensive income	29	770
Amount recognised in profit or loss	291	663
Amount recognised in other comprehensive income (without deferred tax)	-262	107

	2022	2021
Actuarial gains (losses) relating to specific benefit schemes	262	-107
Deferred tax	-50	40
Amount recognised in other comprehensive income	212	-67

Actuarial gains and losses are recognized by the Group 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 2022 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	1,477	99	572	2,148
rotation rate -1.0%	1,521	103	603	2,227
rotation rate +1.0%	1,439	95	545	2,079
probability of drawing pension -0.5	1,402	81	515	1,998
probability of drawing pension +0.5	1,391	113	511	2,015
technical discount rate -1.00%	1,533	102	595	2,230
technical discount rate +1.00%	1,426	96	551	2,073
rise in bases	0	0	0	0
remuneration at the Company -1.0%	1,374	94	529	1,997

remuneration at the Company +1.0%	1,595	105	622	2,322
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7.14. Financial instruments

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

Balance at 31 December 2022

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)	41,924	0	0	0	44,593
Trade receivables	199,577	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	6,118	0	0	0	0
Cash and cash equivalents	0	63,251	0	0	0
Loans and bank credits	0	0	0	0	28,335
Lease liabilities	0	0	0	0	20,282
Trade payables	0	0	0	0	135,902
Total	247,619	63,251	0	0	229,148

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 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)	17,886	0	0	0	45,057
Trade receivables	155,636	0	0	0	0
Other financial liabilities	0	0	0	0	36
Advanced loans	285	0	0	0	0
Cash and cash equivalents	0	108,736	0	0	0
Loans and bank credits	0	0	0	0	7,964
Lease liabilities	0	0	0	0	20,537
Lease liabilities associated with assets held for sale	0	0	0	0	366
Trade payables	0	0	0	0	117,208
Total	173,807	108,736	0	0	191,168

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	31-12-2022	31-12-2021
– less than 1 year	181,730	149,477
– 1 - 3 years	19,243	17,624
– 3 - 5 years	4,444	3,391
– 5 + years	23,731	20,676
Total	229,148	191,168

Derivative instruments

No derivative instrument transactions were entered into by the Group in 2022 or 2021.

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	
	31-12-2022	31-12-2021	31-12-2022	31-12-2021
RTI	0	0	0	0
Wiesław Nowak	0	0	0	0
Total	0	0	0	0

	Revenue		Purchases	
	2022	2021	2022	2021
RTI	3	3	0	0
Wiesław Nowak	2	5	0	0
Total	5	8	0	0

	Advanced loans		Financial income (interest)	
	31-12-2022	31-12-2021	2022	2021
RTI	0	0	3	0
RTI Germany	0	0	0	5
Wiesław Nowak	0	0	0	0
Total	0	0	3	5

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

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

On the basis of the notarial deed of PLN 13 July 2022, ZUE acquired 400 newly created RTI shares with the total nominal value of PLN 20 thousand. The shares were paid up in cash.

On 20 October 2022, ZUE and RTI signed the special-purpose loan agreement. The repayment date for the loan of PLN 325 thousand was 20 December 2023. The loan was disbursed on 21 October 2022.

On the basis of the resolution passed by the Extraordinary Shareholders Meeting of RTI on 18 November 2022, ZUE acquired 6,550 newly created shares in RTI with the total nominal value of PLN 327.5 thousand. The shares were paid up by in-kind contribution in the form of ZUE's claims under the loan agreement of 20 October 2022.

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

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

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

Major pending court proceedings concerning liabilities:

There are no pending court proceedings concerning liabilities.

Major pending court proceedings concerning claims:

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

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

An expert opinion was prepared according to which the petitioner's claims were to a considerable extent well-grounded. There were also other opinions and the arguments contained therein were basically the same as in the first opinion. The date of the next trial was set as 1 June 2023.

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

On 30 December 2016, the consortium of:

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

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

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

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

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

On 11 March 2019, the Court delivered the partial judgment whereby it ordered that PKP Polskie Linie Kolejowe S.A. pay ZUE PLN 347 thousand plus statutory default interest from 21 December 2016 to the date of payment and dismissed ZUE's claim concerning the payment of PLN 283 thousand plus statutory interest from 21 December 2016. The Parties appealed against this judgment. The Petitioner appealed against the dismissal of the claim of PLN 283 thousand plus statutory interest and the Defendant appealed against the order to pay PLN 347 thousand plus statutory interest. The appeal hearing referring to the partial judgment was held on 13 February 2020. On 27 February 2020, the appeals were dismissed by the Court of Appeals and the partial judgment became final and binding. The Court admitted the opinion of the expert which complied, to a considerable extent, with the Petitioners' arguments and was delivered to the Parties. There were also another opinion and the arguments contained therein were basically the same as in the first opinion. The date of the next trial was set by the Court as 13 April 2023.

Court case relating to the contract claim

On 28 April 2020, the claim of approx. PLN 34.8m was lodged against PKP PLK S.A. with the District Court in Warsaw to increase/pay the remuneration for the performance of the following contract: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section." The case is pending. The Parties exchange the pleadings. The Defendant (PKP PLK S.A.), represented by the General Counsel to the Republic of Poland, responded to the claim and applied for the dismissal thereof. The Plaintiff upheld the claim. Witnesses and the parties were heard and the proceedings are pending. An expert was appointed to prepare an opinion.

Other court cases concerning inflation claims in respect of railway contracts

The Group previously declared its intention to make contractual claims relating to railway projects in order to increase the amount of remuneration payable to the contractor for the performance of the railway contracts in case of any risks beyond the contractor's control. Accordingly, the Issuer and consortium members filed the four claims in December 2021 for the total amount (attributable to ZUE S.A.) of approx. PLN 19m. The claims concern the following projects:

- Provision of design services and completion of construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section);"
- "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section;"
- "Preparation of building and detailed designs and the completion of LOT B works as part of "design-build" project in connection with the Infrastructure and Environment Operational Programme (IEOP) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II;"
- "Works on the railway lines no. 140, 148, 157, 159, 173, 689, 691 of the Chybie – Żory – Rybnik – Nędza / Turze section."

The Defendant responded to all of the cases and applied for the dismissal thereof. The Petitioner responded to the Defendant's statements and the exchange of pleadings between the parties came to an end. The parties are waiting for the trial.

Two inflation claims for the total amount of approximately PLN 8m were submitted by the Issuer in December 2022. The claims concern the following projects:

- Protection of civil structures on the Dęblin – Lublin section as part of the project named: "Works on the Warszawa Wschodnia Osobowa – Dorohusk railway line no. 7 of the Warszawa – Otwock – Dęblin – Lublin section, stage I;" and
- Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-16 "Improvement of capacity of E 20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the Łowicz Local Traffic Control Centre (LCS) section."

Case numbers were assigned to these cases. The Issuer is waiting for the claims to be submitted to the defendant.

Other court cases in connection with inflation claims relating to urban contracts

In November 2022, the Issuer and the consortium members, namely Przedsiębiorstwo Budownictwa Inżynieryjnego "Energopol" spółka z ograniczoną odpowiedzialnością and Przedsiębiorstwo Inżynieryjne "IMB-Podbeskidzie" spółka z ograniczoną odpowiedzialnością, submitted an inflation claim relating to the urban project named "Extension of the Igołomska Street, the national road no. 79 – Stage 2 together with the infrastructure in Cracow" managed by the City of Cracow, the defendant. ZUE's claim amounts to approximately PLN 6m. The defendant responded to the claim and applied for the claim to be dismissed. The petitioner is waiting for the date of the trial to provide their statement on the said response.

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 system.

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

No significant or countable tax risks were recognised by the Group at 31 December 2022 or 31 December 2021.

The inspection of CIT for 2018 commenced at the Company on 7 February 2022. No information about any reservations was received by the Group at the date of approval of this report.

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	01.2022-12.2022	1 575	01.2021-12.2021	1,540
Anna Mroczek	01.2022-12.2022	795	01.2021-12.2021	823
Jerzy Czeremuga	01.2022-12.2022	640	01.2021-12.2021	739
Maciej Nowak	01.2022-12.2022	750	01.2021-12.2021	815
Marcin Wiśniewski	01.2022-12.2022	799	01.2021-12.2021	850
Proxy				
Magdalena Nowak	01.2022-12.2022	720	01.2021-12.2021	785
Supervisory Board				
Mariusz Szubra	01.2022-05.2022	26	01.2021-12.2021	67
Barbara Nowak	01.2022-12.2022	50	01.2021-12.2021	50
Bogusław Lipiński	01.2022-05.2022	21	01.2021-12.2021	50
Piotr Korzeniowski	01.2022-12.2022	60	01.2021-12.2021	50
Michał Lis	01.2022-01.2022	2	01.2021-12.2021	50
Agnieszka Klimas	01.2022-12.2022	48	01.2021-12.2021	n/a
Maciej Szubra	06.2022-12.2022	29	01.2021-12.2021	n/a
Irena Piekarska-Konieczna	06.2022-12.2022	29	01.2021-12.2021	n/a
Total		5,544		5,819

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 the market trends.

The remuneration of the Supervisory Board members includes solely the remuneration payable for their service on the Supervisory Board.

At the end of the reporting period, the Company has no liabilities under retirement or similar benefits to any former members of the of the supervisory or managing personnel.

7.19. Liabilities incurred to purchase property, plant and equipment

There were no major agreements concerning capital expenditures on property, plant and equipment at 31 December 2022 or 31 December 2021.

7.20. Contingent assets and contingent liabilities and security on property

Contingent assets

	31-12-2022	31-12-2021
Bonds	94,076	89,133
Promissory notes	12,608	747
Total	106,684	89,880

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

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

Contingent liabilities and security on property

	31-12-2022	31-12-2021
Bonds	515,905	514,540
Guarantees	13,285	14,291
Promissory notes	248,164	301,346
Mortgages	186,529	81,529
Pledges	158,556	159,872
Total	1,122,439	1,071,578

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

Contingent liabilities in the form of guarantees secure the bonds and credits provided to the Group companies by banks and insurance companies and guaranteed by ZUE as the Parent Company.

The liabilities to banks, lessors and strategic customers are secured by promissory notes.

Mortgages are additional security for the credit agreement with mBank S.A., insurance agreement with PZU S.A., the agreement with PEKAO S.A. and the loan agreement with Agencja Rozwoju Przemysłu S.A.

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

There is also financial pledge over the borrower's bank accounts to secure the agreements between the Group companies and mBank S.A.

7.21. Discontinued operations

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

7.22. Revisions to estimates

The following revisions to estimates occurred in the reporting period:

- 1/ Construction contracts accounted for using percentage-of-completion method – the revision was influenced by the review of the construction contract budgets; and
- 2/ Useful economic lives of non-current assets – the revision was influenced by the annual review of useful economic lives.

The estimates relate, *inter alia*, to:

Impairment of goodwill (note no. 7.6.)

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

Loss allowances for receivables (note no. 3.4.)

Provisions (note no. 3.3.)

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

Deferred income tax (note no. 2.7.)

Contingent assets and contingent liabilities and security on property (note no. 7.20.)

Uncertainty over tax settlements (note no. 7.17.)

7.23. Impact of the coronavirus pandemic on the operations of the Group

Measures taken by the Group

During the pandemic, the Issuer took 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 Group reacted on an ongoing basis to the pandemic situation in Poland following the Government's announcement of the new restrictions in 2020 and 2021 and considered the related recommendations. In times of the pandemic increase in 2021, the Group extended the ability of its employees to work remotely or on a rotational basis where remote work was impossible. The Group also employed additional measures to keep its employees

informed, monitor their health and provide them with protective equipment. The Group continued these activities until 16 May 2022 when the pandemic was officially rescinded.

Measures were taken by the Group to ensure the safety of employees and collaborators and to continue operating activities.

Impact of the coronavirus pandemic on the Group's activity and financial standing in 2022

The coronavirus epidemic in Poland and the related restrictions had an influence both on the performance of construction contracts and other areas of activity. Direct contacts with the representatives of investors and other entities involved in construction projects were kept to a minimum and due precaution measures were taken. Most of the contacts continued remotely. The work was organised to ensure the safety of people involved in the performance of construction contracts.

In addition to general restrictions witnessed in Poland during the pandemic, employees and other people involved in construction projects were absent due to isolation and quarantine caused by COVID-19. These factors, however, did not disturb the Group's construction processes or supply chains thanks to the measures taken by the ZUE and the fact that the absence from work was relatively small. In addition, the Issuer believes that the situation was 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 Group's key assets.

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

Below please find the factors which may influence the markets in which the Issuer operates and ZUE's activities in the next quarters should the state of emergency be declared again in Poland.

Factors which may have a negative influence:

- Limited supply of certain building materials and price increases caused by disruptions in the chains of supply;
- Further increase in 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 possible 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 Group's employees, subcontractors and consortium members; and
- Possible suspension of works under construction contracts.

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

The COVID-19 pandemic mainly influenced the Group's employees and social issues. Interpersonal communication was affected and work had, to a certain extent, to be done remotely. These measures continued in 2022. 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.

7.24. Influence of the situation in Ukraine on the Group's operations

The war in Ukraine did not have a material influence on the financial results at the date of approval of this report. However, the effects of the war such as limited supply and rising prices of building materials or restrictions on the employment market may have a negative influence on the contracts performed by the Group. The Company keeps monitoring the potential risks and cooperates with contracting authorities to minimize them.

The Company has cooperated with its suppliers for many years. The cooperation with transparent partners as well as internal control of transactions reduce the risk of getting involved in transactions exposed to sanctions imposed by the EU on Russia and Belarus. The Group has no assets in Russia, Belarus or Ukraine and does not conduct any activities in those countries.

The Company controls, on an ongoing basis, the safety of the Group's IT systems to prevent cyberattacks.

The Company constantly monitors the risks associated with foreign exchange rates and interest rate changes.

The number of absent employees or other people involved in construction projects in the first half of 2022 due to their departure to Ukraine was rather small. The share of Ukrainian employees in the total employment was less than 4% and about 35% of them were subject to mobilization and had to leave. These facts combined with the activities undertaken by ZUE caused that building processes were not disrupted.

Ukraine's political and economic situation as well as changes on the raw and other materials markets are constantly monitored by the Group in terms of the actual and potential impact thereof on the Company's activities.

Below please find the factors which may influence the markets in which the Issuer operates and the Company's activities in the next quarters:

- Increased prices of certain imported products and materials caused by the weakening of PLN rate (as well as other currencies of the region);
- Disruptions in the chains of supply of certain imported products and materials;
- Increased prices of fuels, natural gas and electricity;
- Limited access to fuels and natural gas;
- Greater financial risk of the countries of the region which may limit the access to financing and entail greater costs; and
- Migration of Ukrainian employees from Poland to Ukraine.

Like many companies, the Group provided help and support to Ukraine and Ukrainian refugees who found shelter in the Małopolska province. The costs associated with the support were incidental and the value thereof was insignificant to the financial statements.

8. Other notes to the financial statements

8.1. Use of the International Financial Reporting Standards

8.1.1. Statement of compliance

The consolidated financial statements of the Capital Group for the year ended 31 December 2022 and the comparative information for the financial year ended 31 December 2021 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 2022:

- **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).

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

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

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 1 "Presentation of Financial Statements: Classification of Liabilities as Current and 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 guidelines of the IFRS Board on disclosures of accounting policies** – 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);
- **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);
- **Amendments to IFRS 16 "Leases"** – Lease Liability in Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024);
- **Amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current and Non-current"** (effective for annual periods beginning on or after 1 January 2024 with earlier application permitted).

8.1.4. Changes to applied accounting principles

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

8.2. Important accounting principles

8.2.1. Going concern

The consolidated financial statements have been prepared assuming that the Group will continue in operational existence for at least 12 months after the end of the reporting period. The most important factor influencing the Group's ability to continue in operational existence is the financial condition of the Parent Company. The key factors with an impact on the Group's ability to continue its operations include liquidity, proper backlog and market situation.

In the 12 months ended 31 December 2022, the Group recognised the sales revenue of PLN 921.4m and the gross profit of PLN 42.8m. As at 31 December 2022, the Group presented the total current assets of PLN 475.3m, including trade and other receivables of PLN 170.6m and the cash of approximately PLN 63.3m. At the end of the reporting period, the Group had the backlog worth approximately PLN 1,832m and was in the process of winning new contracts.

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

8.2.2. Comparability of financial data

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

The real estate situated in Poznań had not been sold as a result of which it was reclassified from "Assets held for sale" to "Property, plant and equipment." Despite the extension of the period required to complete the transaction, the real estate was not sold due to the circumstances beyond the Group's control.

A separate item, namely "Lease liabilities associated with assets held for sale," was previously presented by the Group in the statement of financial position. In these financial statements, the item was recognized in "Lease liabilities."

8.2.3. Preparation basis

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

The accounting principles (policies) used in the preparation of these consolidated financial statements are consistent with the accounting principles (policies) used in the preparation of the consolidated financial statements of the Group for the financial year ended 31 December 2021.

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

8.2.4. Principles of consolidation

Investments in subsidiaries

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

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

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

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

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

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

Investments in associates

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

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

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

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

Loss of control

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit and loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

Non-controlling interests not resulting in change of control

Non-controlling interests that do not result in a change of control are recognised in equity separately from the parent shareholders' equity.

Goodwill

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

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

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

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

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

8.2.5. Segment reporting

The Group's reporting is based on operating segments.

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

- Construction;
- Design; and
- Sales.

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

8.2.6. Recognition of revenue from long-term construction contracts

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

The Group's revenue:

- revenue from construction contracts;

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

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

Revenue from construction contracts

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

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

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

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

Input method

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

Zero-profit method

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

Recognition of expected losses

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

Practical use of progress toward completion measurement methods

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

Contract measurement stages:

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

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

8.2.7. Foreign currencies

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

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

8.2.8. Borrowing costs

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

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

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

8.2.9. Employee benefits

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

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

Costs of social insurance financed by the employer include pension, social security and accident benefits and contributions to the Guaranteed Employee Benefits Fund, 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 Group pays retirement gratuities according to the employment code and makes a provision for these benefits. The payments are recognised in profit or loss in a way enabling the spread of these costs over the entire term of employees' employment with the Group. The amount of the provision is determined by an independent actuary using the projected unit method according to the employment code.

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

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

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

8.2.10. Income tax (including deferred tax)

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

8.2.11. Property, plant and equipment

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

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

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

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

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

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

8.2.12. Investment property

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

Investment properties are initially measured at cost, 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 as set out in note 8.2.15.

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

8.2.13. Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

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

8.2.15. Non-current assets held for sale

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

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

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

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

less costs to sell.

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

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

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

8.2.17. Leases

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

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

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

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

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

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

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

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

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

- a) Fixed lease payments (including in-substance fixed lease payments), less any lease incentives receivable;
- b) Variable lease payments that depend on an index or a rate initially measured with the index or the rate at the commencement date;
- c) Amounts expected to be payable by the lessee under residual value guarantees;

- d) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

- 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 Group at amortised cost.

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

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

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

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

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

<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 Group in the note 6.2. Leases.

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

8.2.18. Inventories

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

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

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

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

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

8.2.19. Trade and other receivables

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

Trade and other receivables are classified by the Group in the following manner:

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

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

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

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

8.2.20. Cash and cash equivalents

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

8.2.21. Trade and other payables

Short-term trade and other payables are recognised at amortised cost or, where the discount effect is negligible, at an amount due.

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

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

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

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

8.2.22. Accruals

Accruals include provisions for the costs of contracts.

In the course of performance of construction contracts, the Group enters into agreements with subcontractors whereby the works performed by subcontractors are accepted at later dates. Accordingly, there may be the works

of significant value already performed at the end of the reporting period for which no invoice has been issued to the Group. In such cases, the Group recognises accruals relating to the works uninvoiced by the subcontractors.

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

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

8.2.23. Advance payments

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

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

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

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

8.2.24. Financial assets

Classification and measurement

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

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

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

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

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

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

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

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

The following items are included by the Group 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 Group measures allowances on the basis of expected credit losses likely to occur over the life of an instrument at an amount equal to 12-month expected credit losses.

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

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

The Group has applied a simplified model of recognising loss allowances for trade receivables based on historical data concerning credit losses adjusted, where appropriate, for the influence of information about the future. In the case of trade receivables covered by IFRS 15 (i.e. the measurement of long-term construction contracts), a loss allowance is measured by the Group at an amount of expected credit losses for the entire expected lifetime of the financial asset.

Hedge accounting

No hedge accounting is applied by the Group.

8.2.25. Financial liabilities and equity instruments issued by the Group

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

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

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

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

8.2.26. Provisions

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

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

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

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

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

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

8.3. 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 and security on property
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 8.2.11 and 8.2.13 discuss the expected periods of useful economic lives of property, plant and equipment and intangible assets verified by the Group at the end of each annual reporting period.

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

8.3.3. Loss allowances for receivables

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

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

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

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

8.3.4. Provisions

Provisions for litigations

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

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

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

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

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

Provisions for loss on contracts

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

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

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

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

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

8.3.6. Deferred tax assets

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

8.3.7. Contingent assets and contingent liabilities and security on property

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 or security on property are not recognised by the Group in the consolidated statement of financial position. The Group discloses information about a contingent liability or security on property in the notes

to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

8.3.8. Uncertainty over tax settlements

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

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

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

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

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

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

9. Events after the end of the reporting period

On 13 March 2023, the Company published the preliminary financial results for 2022. **(Current report 3/2023)**

10. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Management Board on 21 March 2023.

11. Signatures

The financial statements have been prepared by:

Marzena Filarek 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, 21 March 2023