GRUPA TRAKCJA

TRAKCJA
CAPITAL GROUP

CONSOLIDATED ANNUAL REPORT

OF TRAKCJA CAPITAL GROUP

FOR THE FINANCIAL YEAR ENDED 31 December 2017

published pursuant to pt. 82.2.3 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information to be published by issuers of securities and on conditions for recognition as equivalent of information required under non-member state law regulations (Journal of Laws of 2014, item 133)

Warsaw, March 28, 2018

This document is a translation
The Polish original should be referred to in matters of interpretation

Content of the Annual Report:

Dear Stakeholders of Trakcja Group

Last year brought about the long-awaited tenders on the market for infrastructure investment projects. The prolonged investment gap period was turned to good account by Trakcja Group. We have completed the restructuring process and implemented a new contract-focused organisational structure. We have also rejuvenated our teams and taken on over 300 new employees, in particular, engineers, managers, specialist equipment operators and skilled professionals largely in order to meet the needs of the road sector that has been flourishing for Trakcja PRKiI S.A.

Simultaneously, we have strengthened our implementation capacity and followed a large-scale activity diversification programme. Having acquired 100% of shares in BTW which possesses specialised track equipment, we also continued purchasing machines for rail and road market works performed by Trakcja PRKiI. The aforementioned actions reflect our strategy to become independent of subcontractors. We have also continued our operations in the energy industry, which we began several years ago, and we have effectively expanded into the urban market by securing the largest contract for the construction of a tram line, which was published last year.

Our international operations are supported by our strong position in Lithuania and by the acquisition of new markets. In 2017 we started operating in the Ukrainian road industry, we were certified in Germany and we penetrated the Balkan region through our branch in Sofia.

Last year also saw our innovation performance becoming successful. Our equipment and technological solutions presented at the Trako international fairs have been widely acknowledged by experts and awarded prizes in the rail and energy industries. We hope that their successful implementation will allow us to further diversify our activities.

In managing the capital group that employs over 2100 people and operates in many European regions, we comply with the principles of sustainable development and respect the aims of all stakeholders. Owning to this, the companies within Trakcja Group stand absolutely for professionalism, broad competences and a high level of confidence, in particular, among their contractors, public institutions and the financial sector. This is demonstrated by the reintegration into a small group of socially responsible companies and by the successful Respect Index certification. Our endeavours to provide safe working conditions have been acknowledged by the Central Institute for Labour Protection which recognised Trakcja PRKiI as one of the Leaders in Safety at Work. These actions have helped us strengthen all the key pillars for the stability and safety of Trakcja Group.

I would like to thank our stakeholders for their trust. Please feel free to become familiar with our Annual Report, which presents our performance in the previous year.

Jarosław Tomaszewski

President of the Management Board

General Director

Trakcja PRKiI S.A.

GRUPA TRAKCJA

TRAKCJA CAPITAL GROUP

REPORT OF THE MANAGEMENT BOARD

ON THE ACTIVITIES OF TRAKCJA CAPITAL GROUP

IN 2017

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The Polish original should be referred to in matters of interpretation

This Report on the Activities of Trakcja Capital Group in 2017 was prepared pursuant to Article 91 and 92 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information to be published by issuers of securities and on conditions for recognition as equivalent of information required under non-member state law regulations (Journal of Laws of 2014, item 133).

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Figures provided in this Report on the Activities of the Group are presented in thousand Polish zlotys, unless explicitly stated otherwise. Financial information included herein is derived from the consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union, published and applicable as at December 31, 2017. We would also like to emphasise forward-looking statements (e.g. may, will, expect, consider, estimate), because they are based on certain assumptions subject to risk and uncertainty. Therefore, the Group is not responsible for such information.

1. STRUCTURE OF TRAKCJA CAPITAL GROUP

1.1. General information on the Group

Trakcja Group ("Trakcja Group" or "Group") is one of the leading entities on the Polish and Lithuanian rail, tram and road infrastructure construction market.

The Group's activities focus on the comprehensive performance of works relating to a widely understood rail and road infrastructure with the use of modern machinery. The Group specialises in providing engineering and construction services in the following scope: design, construction and modernisation of rail and tram lines, rail and tram electrification system and power lines, as well as the construction of bridges, viaducts, piers, overpasses, tunnels, underpasses, retaining walls, roads and associated elements of rail and road infrastructure. In addition, Trakcja Group may perform general construction works, including the preparation of construction sites and the construction and modernisation of structures, as well as structural works and finishing works. The key part of the Group's activities consists in the construction of buildings both for rail infrastructure purposes (traction substation buildings, switch towers, railway crossing cabins, railway stations, train buildings and other) and for general purposes (residential and commercial). The services provided also include the development of power systems and remote control systems. For over seventy years, the Group members have been implementing complete power installations of medium and lately high voltage, both in new and in modernised and renovated rail power facilities. The Group modernised several thousand kilometres of rail lines and provided power to over 10,000 kilometres of rail lines. It also constructed and modernised over 450 traction substations and 380 track section cabins.

In the road construction sector, the Group specialises in the construction and alteration of roads, motorways, bridges, viaducts, airports, water ports and public utility infrastructure systems. Since its establishment, i.e. since 1949 AB Kauno Tiltai, a member of the Group and the largest company in the infrastructure construction sector in the Baltic countries, has constructed over 100 bridges and viaducts and has been responsible for constructing and reconstructing numerous roads in Lithuania.

The Group's main attributes are its ability to provide for the comprehensive performance of projects within its own capacity in all industries (railway track works, engineering facilities and overhead contact lines), its portfolio of contracts awarded and:

- its highly qualified management along with the customer-orientated team,
- its wide experience of professional performance and coordination of works that are completed in a timely manner and according to the highest European standards,
- its modern machinery.

The Group has a competitive advantage over many companies, and its position on the market of services relating to the rail and road infrastructure both in Poland and in Baltic countries is grounded and stable.

The long-term market practice has enabled the Group to develop management techniques for the projects performed, which ensure that the companies are able to complete the works assigned to them within the agreed schedules and that simultaneously the required quality is maintained and the special requirements of investors are met.

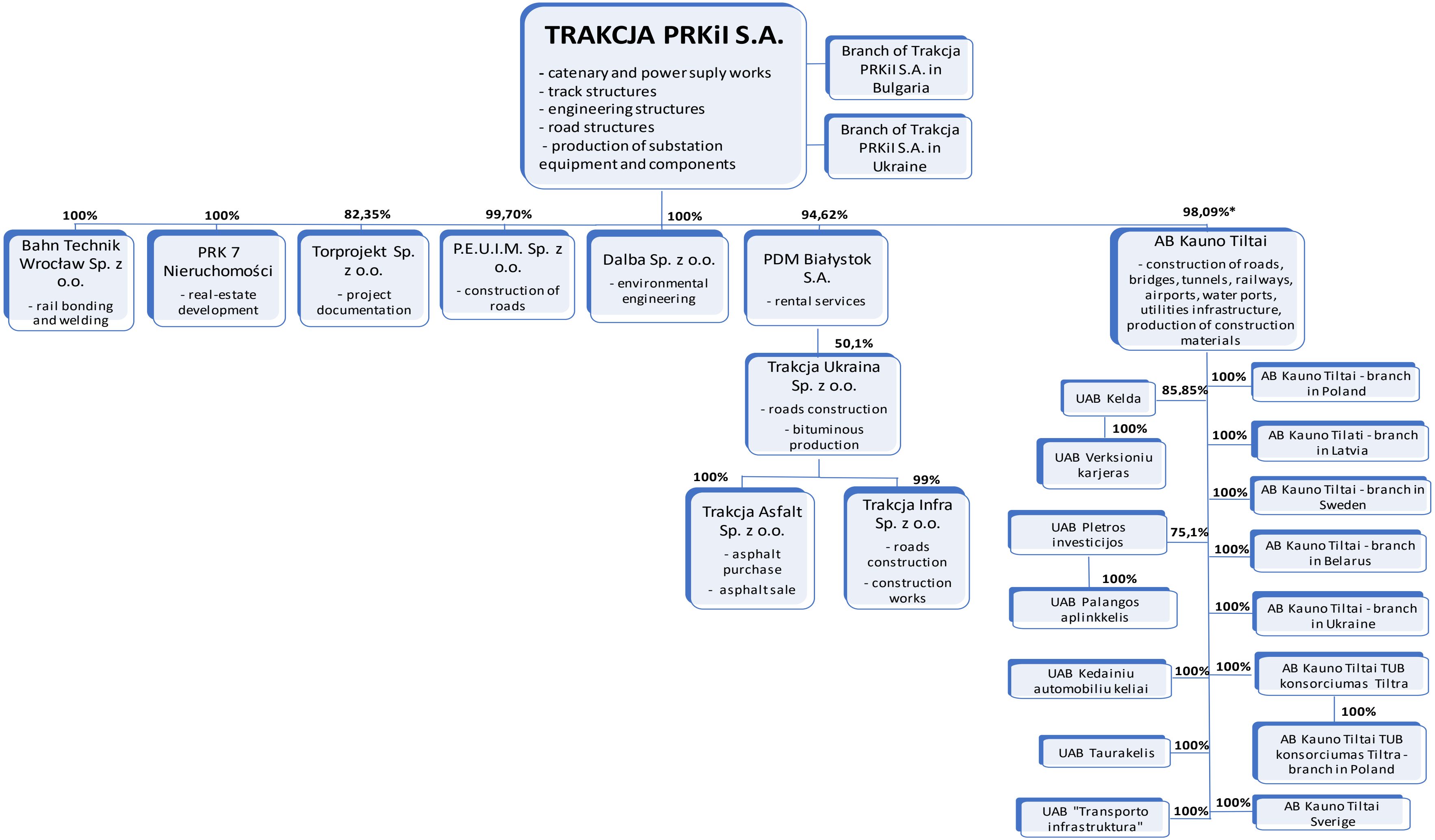
The majority of the projects implemented by the Group are financed, in particular, with funds granted by European Union and Polish government. Their implementation requires the EU procedures to be strictly complied with, which has also an effect on the quality of the services provided and products manufactured.

The Company has experience in constructing and repairing roads in Poland and Lithuania. The Group performs comprehensive works as a general contractor together with reliable subcontractors or independently using its own capacity. In addition, the Group also performs specialised tasks such as laying road surfaces and construction of engineering facilities, drainage systems, lighting systems, sewage systems and infrastructure for pedestrians and cyclists. The Group has a bituminous mass production plant that manufactures for the purposes of the contracts implemented and is a reliable source of materials for external customers.

In addition, the Group constructs traction substations for tram, trolleybus and rail lines, and also track section cabins, which are equipped with switching stations manufactured internally.

1.2. Structure of the Group

Trakcja PRKiI S.A. ("Trakcja PRKiI", "Company" or "Parent Company") is the parent company of Trakcja Group. The Group's composition and structure as at December 31, 2017 is presented in the diagram below.



*) Trakcja PRKiI holds a total of 98.09% (96.84% directly and 1.25% indirectly) of the share capital of AB Kauno Tiltai. The indirect shareholding results from the acquisition of own shares by the subsidiary.

1.3. Structure of Trakcja Group, including entities subject to consolidation

As at December 31, 2017 the Group consists of the Parent Company (Trakcja PRKiI) and its subsidiaries.

Fully-consolidated entities:

PRK 7 Nieruchomości Sp. z o.o.

PRK 7 Nieruchomości Sp. z o.o. carries out real estate development activities and has a track record of several successful investment projects, which include, in particular, Lazurowe Osiedle residential project in Warsaw (stage I and II) and the project at ul. Oliwska in Warsaw, as well as the construction of five multi-family residential buildings in Warsaw at ul. Pełczyńskiego. The Company implements a project consisting in the construction of terraced houses located at ul. Oliwska in Warsaw. The Company also carries out activities in the area of the construction of buildings and the commercial construction.

Torprojekt Sp. z o.o.

Torprojekt Sp. z o.o. with its registered office in Warsaw was established in 2009. The company specialises in preparing comprehensive project documentation, including feasibility studies, concepts, basic designs, also construction designs, tender documents and detailed designs for railway lines, stations, nodes, passenger stops and loading points, bridges, overpasses, railway traffic control devices, buildings and structures, including technology infrastructure, etc.

Bahn Technik Wrocław Sp. z o.o.

On December 30, 2016 Trakcja PRKiI became the sole shareholder in Bahn Technik Wrocław Sp. z o.o. ("BTW"). The transaction is described in detail in Note 3.1 of the Consolidated Financial Statements for 2016. Until December 31, 2016 the Group exercised joint control over BTW and classified the company as a joint venture pursuant to IFRS 11.

The BTW's business activities include thermite welding, repairing and renovating turnouts, renovating railway and tramway crossings, providing pre-stressed, glued insulation joints type S, welding tram and railway tracks, tamping and profiling railway and tramway tracks, and selling Perker SR rail lubrication systems. Since December 2016, BTW has been also equipped with a GOTTWALD crane and a DGS track stabilizer. BTW renders its services both in Poland and abroad.

Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o. ("PEUiM")

PEUiM operates in the road construction sector and its business activities are concentrated in the north-east of Poland. The company was established in Białystok in 1960. PEUiM specialises in the construction of roads and pavements, and in the installation of signalling and safety devices to secure the roads. The company also manufactures bituminous mass, concrete and other building materials.

Dalba Sp. z o.o.

Dalba Sp. z o.o. is a company with its registered office in Białystok, whose activities involve the performance of engineering works, mainly, during the construction of sanitary infrastructure, roads and streets.

PDM Białystok S.A.

PDM Białystok S.A. is a company with its registered office in Białystok. It provides equipment, premises and tool rental services to external companies and supplies PEUiM with materials.

Establishment of Trakcja PRKiI S.A. in Bulgaria

On March 29, 2016 Trakcja PRKiI S.A. opened an establishment in Sofia (Bulgaria).

AB Kauno Tiltai Group

AB Kauno Tiltai is the largest company in the road and bridge construction sector in the Baltic countries. It specialises in the construction and reconstruction of roads, bridges, tunnels, railways, airports, water ports, which is demonstrated, inter alia, by the fact that since its establishment, i.e. since 1949, AB Kauno Tiltai has constructed over 100 bridges and viaducts and has been responsible for constructing and reconstructing numerous roads in Lithuania.

AB Kauno Tiltai with its registered office in Kaunas is a subsidiary of the Parent Company, Trakcja PRKiI, and simultaneously the parent company in AB Kauno Tiltai Group.

AB Kauno Tiltai Group is composed of the following entities:

- UAB Kelda – a subsidiary with registered office in Vievis (Lithuania); the company's subsidiary is:
  - UAB Verksioniu karjeras – a subsidiary with its registered office in Bagoteliu K (Lithuania);
- UAB Taurakelis – a subsidiary with its registered office in Tauragé (Lithuania);
- UAB Kedainiu Automobiliu Keliai – a subsidiary with its registered office in Kédainiai (Lithuania);
- TUB Konsorciumas Tiltra – a subsidiary with its registered office in Kaunas (Lithuania);
- UAB Pletros investicijos – a subsidiary with its registered office in Vilnius (Lithuania);
- UAB Palangos aplinkkelis – a subsidiary with its registered office in Vilnius (Lithuania) established to perform contracts in the framework of public-private partnerships;
- AB Kauno Tiltai Branch in Poland – a branch of AB Kauno Tiltai with its registered office in Poland;
- AB Kauno Tiltai Branch in Latvia – a branch of AB Kauno Tiltai with its registered office in Rezekne (Latvia);
- AB Kauno Tiltai Branch in Belarus – a branch of AB Kauno Tiltai with its registered office in Minsk (Belarus);
- AB Kauno Tiltai Branch in Sweden – a branch of AB Kauno Tiltai with its registered office in Norsborg (Sweden);
- AB Kauno Tiltai Sverige – a subsidiary with its registered office in Malmö (Sweden);
- UAB Transporto infrastruktura – a subsidiary with its registered office in Vilnius (Lithuania).

Trakcja Group includes also subsidiaries established in 2017 and with registered offices in Ukraine: Trakcja Ukraina Sp. z o.o., Trakcja Infra Sp. z o.o., Trakcja Asfalt Sp. z o.o., an establishment of Trakcja PRKiI S.A. in Ukraine and a branch of AB Kauno Tiltai in Ukraine. Due to an insignificant impact of the Ukrainian companies on the Group's performance, their data is not included herein.

The ultimate parent company is COMSA S.A., a Spanish company which prepares the consolidated financial statements include, among many, the data of Trakcja Group.

1.4. Changes in the Group's structure and their consequences

In the period from January 1, 2017 to December 31, 2017, there were changes made to the composition and structure of Trakcja Group. On February 9, 2017 a subsidiary was established with a business name of ТРАКЦІЯ УКРАЇНА (Trakcja Ukraina Sp. z o.o.) and with its registered office in Dnipro (Ukraine), whose majority shareholder is PDM Białystok S.A. and on March 3, 2017 Trakcja PRKiI established a branch of its company in Ukraine. Trakcja Ukraina Sp. z o.o. has two subsidiaries: Trakcja Infra Sp. z o.o. and Trakcja Asfalt Sp. z o.o. AB Kauno Tiltai opened an establishment with its registered office in Kiev (Ukraine) on June 22, 2017. Due to an insignificant impact of the Ukrainian companies on the Group's performance, their data is not included herein.

1.5. Employment in the Group

Average employment in the Group was as follows:

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Average employment in the Capital Group during the period:		
Management Board of Parent entity	5	5
Management Boards of subsidiaries	15	13
Administration	229	225
Sales department	34	35
Production division	1 360	1 383
Machine operators	252	240
Technical staff	142	142
Other employees	43	48
Total	**2 080**	**2 091**

Employment in the Group as at December 31, 2017 was as follows:

	31.12.2017 Audited	31.12.2016 Audited
Employment in the Capital Group at the balance sheet date		
Management Board of Parent entity	5	3
Management Boards of subsidiaries	15	13
Administration	227	228
Sales department	35	36
Production division	1 258	1 260
Machine operators	255	238
Technical staff	143	141
Other employees	46	43
Total	**1 984**	**1 962**

1.6. Changes in the key principles for managing the Company and the Group

The Parent Company implemented the Integrated Management System which includes:

- ISO 9001:2008 Quality Management System;
- ISO 14001:2005 Environmental Management System;
- BS OHSAS 18001:2007 OHS Management System.

As a result of changes in the Company's organisational scheme, amendments were made to the system documentation.

At the turn of June and July 2017, a certification audit of the Integrated Management System was conducted by the TUV SUD auditors. The audit was completed successfully. The certificate awarded to the Parent Company confirms that the aforementioned systems function properly. The certificate is valid until September 23, 2018.

In 2017 the Issuer was for the second time in a row recognised as one of the sociably responsible companies listed on the Warsaw Stock Exchange (RESPECT INDEX). In the course of 2017 the Parent Company continued to implement the CSR strategy based on responsible leadership and management, social engagement, dialogue with stakeholders and social innovation. Through its activities, the Issuer endeavours to contribute to sustainable development from an economic, social and environmental perspective.

In 2017 the Group successfully continued its organisational and legal restructuring process started in 2016 (Current Report No. 22/2016) in order to achieve synergies and enhance the operational efficiency and financial power. An important aspect of the restructuring process was the restructuring process implemented in the Parent Company under the Regulations on Collective Redundancies, which was completed as at June 30,

2017. As part of the restructuring process, 65 employment contracts were terminated in the period from September 23, 2016 to June 30, 2017. In keeping with the announced schedule, the process was completed and the provision related thereto was reversed as at June 30, 2017 (the initial provision was PLN 3.9 million). The total cost of the process was PLN 2.1 million. The reduction in employment will result in the fixed costs being decreased over subsequent years, starting from 2017. The employment restructuring process in the railway area of activities was accompanied with a simultaneous development of human potential in new areas of the Company's activities. In 2017 the Parent Company employed over 300 people in order to respond to the needs of the growing activities on the road market and in other industries. More than half of them are engineering and technical staff and highly qualified specialists and operators of construction equipment and railway vehicles. The process of development and change in the structure of personnel, which focuses on increasing the technical and engineering human resources, is continued on a regular basis.

On June 3, 2017 the Parent Company adopted the new remuneration regulations. Numerous incentive systems have been implemented which are intended for all the employee groups and which aim at enhancing the work efficiency and rationalising the employment costs. Other key changes in the regulations involve the reduction in the costs of jubilee bonuses and retirement allowances by half and their complete liquidation after 5 years. The Company continued to further optimise the organisational structure and implement the improved procedures. Their goal is to enhance the competitiveness and to ensure a sustainable development in new segments, namely in the road and power sectors. In that respect, the Company applies a modern approach which consists in developing contract structures and specialised support teams, which are complementary for such structures, with clearly defined competences. In addition, following the rapidly changing market conditions, the job position classification system has been modernised in such a way as to be orientated towards the contract activities, due to which the Group will seek to improve its performance.

In 2017 the Parent Company adopted a new organisational scheme which would allow for a more effective use of human resources and their competences. This in turn translates into the elimination of the medium-level management.

In order to improve the management of claims the Parent Company reorganised the contract department. The Company also introduced a uniform claim policy which allows for more effective cooperation between the technology division and the legal division.

The Parent Company introduced a new contract management structure through the implementation, in particular, of a new contract budgeting system and a segment and region analysis. Given its rigorous approach to the management of contracts, the Parent Company holds meetings with directors of individual contracts on a monthly basis. In addition, the Parent Company reorganised the structure of the operating controlling department through the employment of new controllers and new allocation of regions.

On November 30, 2017 the Supervisory Board appointed, by means of a close association between the companies in the Group, Mr. Aldas Rusevičius as the Vice-President of the Management Board.

In the course of 2017 and between the balance sheet date and the publication hereof, the composition of the Issuer's Management Board changed as has been further described in pt. 6.3.

2. ACTIVITIES OF TRAKCJA GROUP

2.1. Key products, goods and services

Trakcja Group's activities comprise the following areas of services:

Comprehensive modernisation of railway lines

Modernisation of the railway lines includes:

- development and agreement of concepts for all industries, preparation of the project construction documentation, detailed design documentation, obtaining of all permits and permissions and also the preparation of the as-built documentation,
- replacement of railway track substructure and superstructure using the mechanised substructure and track machinery, including the development of the drainage system,

- disassembly of a contact line, including the removal of old foundations and the construction of a new contact line with the use of modern methods for positioning foundations, through the application of the piling method and with the use of trains for stream replacement of the network,
- renovation or complete reconstruction of civil engineering facilities, culverts, bridges and overpasses,
- construction of power supply systems for railway lines,
- comprehensive modernisation of railway crossings (crossings of roads with railway lines),
- reconstruction of a railway traffic control system,
- preparation of construction sites,
- construction of complete buildings or parts thereof,
- development of construction systems, civil engineering works for tracks and roads,
- construction of overhead and underground power distribution lines,
- construction of railway and tram electric contact line and hydraulic engineering.

Moreover, the Group cooperates, if necessary, with companies that specialise mainly in safety of rail traffic and in telecommunications.

Within the framework of supplementary activities, the Group produces different types of industrial devices used for modernising the railway infrastructure, which include the following: 15 kV traction and mobile switchboards, 3 kV, 1.5 kV, 1 kV, 0.8 kV direct current switchboards, control cabinets, local and remote control devices, network isolating switches, steel constructions for the assembly of substations and power system elements and certain contact line equipment. The Group also provides comprehensive services in the area of constructing 110 kV, both cable and overhead, high-voltage lines, and medium-voltage power supply lines, including 15 kV auxiliary power supply lines for the rail infrastructure, along with transformer substations, and low-voltage lines for lighting systems, fire protection systems, lightning protection system, railway traffic and passenger infrastructure control systems and other safety systems.

Construction of buildings

Trakcja Group constructs:

- public utility buildings,
- industrial facilities.

Developer activities

The activities of PRK 7 Nieruchomości Sp. z o.o., which is a member of Trakcja Group, include:

- construction works,
- multifamily residential complexes,
- servicing of real estate on its own account,
- leasing of real estate on its own account.

PRK 7 Nieruchomości Sp. z o.o. develops apartment complexes and houses on land previously purchased from Trakcja PRKiI (formerly PRK-7 S.A.). The company implements development projects in cooperation with the General Contractor.

Road infrastructure construction

These activities include:

- roads – construction and reconstruction of motorways, roads, streets, squares and car parks; services relating to road maintenance in winter and summer,
- bridges – construction and reconstruction of bridges, viaducts and flyovers,
- tunnels – construction and reconstruction of tunnels,

- airports – construction and reconstruction of airport runways and landing areas, air plane parks and special purpose areas.

Power engineering construction

These activities include:

- development of a concept, preparation of a design documentation along with the permits and transmission easements for the transmission power lines and HV substations,
- comprehensive network construction of electric power facilities,
- construction of specialised power systems in the industrial and public utility facilities,
- construction, maintenance and renovation of the road lighting network,
- provision of services relating to the power network diagnostics, along with its servicing and maintenance.

Other activities

Other activities include:

- construction of quays – construction and alteration of ports and harbours and other quayside structures,
- engineering infrastructure – construction of water supply systems, sewage systems, water systems and water treatment plants, and also road and street lighting, as well as provision of traffic control signal assembly and repair services,
- construction of sports facilities,
- manufacture of building materials: asphalt concrete, bitumen emulsions, including polymer modified ones, concrete and reinforced concrete products, as well as extraction and processing thereof.

As at December 31, 2017 the Trakcja Group's portfolio of construction contracts was PLN 1 782 million (excluding any revenues allocated to consortium members). In the course of 2017 the companies within Trakcja Group signed construction contracts with the total value of PLN 1 946 million (excluding works allocated to consortium members). As at 31 December 2017, the contract portfolio of Trakcja Group provided for the full capacity utilisation in the following financial year. The participation in new tenders in 2018 will allow the Group to secure, to an even greater extent, its portfolio of contracts for future periods.

Trakcja Group primarily performs rail and road contracts on Polish and Lithuanian markets. The Group's assets and human resources enable it to implement large contracts worth several hundred million EUR; therefore the Group's focus on local investment projects is rather limited.

The largest contracts completed by the Group in 2017 are presented in the table below (the contract amounts specified include the construction works allocated to consortium members).

No.	Name of contract	Contract value (net mPLN)	Work types
1.	Modernization of the E59 railway line on the Wrocław – Poznań section, stage II - section: Wrocław - Dolnośląskie voivodeship	536	rail works
2.	Modernization of the E30/C-E30 railway line on the Kraków – Rzeszów section, stage III (Dębica - Sędziszów Małopolski)	429	rail works
3.	Execution of construction works in LCS Łowicz – section: Sochaczew – Żychlin and section: Placencja – Łowicz Główny as part of the task "Works on the E20 railway line on the Warszawa-Poznań section – other works, section: Sochaczew-Swarzędz"	428	rail works
4.	Design and execution of construction works on the E20 railway line, section: Siedlce-Terespol within the task "Works on the E20 railway line on the Siedlce - Terespol section, stage III - LCS Terespol"	418	rail works
5.	Development of execution projects and execution of works for LCS Warszawa Okęcie (railway line no. 8)	374	rail works
6.	Design and execution of construction works within the project „Works on the railway lines no. 140, 148, 157, 159, 173, 689, 691 on the Chybie – Żory – Rybnik – Nędza / Turze section"	374	rail works
7.	Modernization of the E30/C-E30 railway line on the Kraków – Rzeszów section, stage III (Sędziszów Małopolski – Rzeszów Zachodni)	304	rail works
8.	Design and construction of the S-5 expressway, Szubin-Jaroszewo	298	road works
9.	Construction of the Trans-European network interchange - Vilnius western bypass Phase III	288	road works
10.	Modernization of the E30 railway line on the Jaworzno Szczakowa - Trzebinia section	235	rail works
11.	Task A: Preparation of project documentation and execution of the construction works under the project „Revitalization of railway line no. 405, section: voivodeship border – Słupsk–Ustka", Task B: Design and building of srk machines from railway station Szczecinek km 71,480 to km 104,515 within the project „Increase of safety and liquidation of operating dangers at the rail network"	165	rail works
12.	Modernization of the E59 railway line on the Wrocław - Poznań section, stage III (Czempiń - Poznań)	157	rail works
13.	Construction and extension of provincial road no. 682 on the Łapy-Markowszczyzna section	142	road works
14.	Development of the Trans-European Road Network E67 (VIA BALTICA). Development of Kaunas-Marijampolė section. Stage I Road A5 Kaunas-Marijampolė-Suvalkai section 23.40 - 35.40 km reconstruction.	128	road works

2.2. Sales structure

Sales structure by type of works, as well as manufacturing and other activities are presented in the table below.

	2017		2016	
	value	share	value	share
Railway works	702 778	51,1%	737 043	53,4%
Road works	496 288	36,1%	507 997	36,8%
Bridge works	25 993	1,9%	23 285	1,7%
Tramway works	3 124	0,2%	5 133	0,4%
Energy works	30 370	2,2%	26 054	1,9%
Production	32 366	2,4%	40 717	2,9%
Other areas of activity	83 372	6,1%	40 944	3,0%
Total revenues from sales	**1 374 291**	**100%**	**1 381 173**	**100%**

2.3. Markets and sourcing

In 2017 the Group provided its construction and assembly services on the Polish and Lithuanian markets.

Geographical structure of revenues from sales in 2017 and 2016 is presented in the table below.

	2017		2016	
	value	share	value	share
Domestic	948 270	69,0%	869 800	63,0%
Abroad	426 021	31,0%	511 373	37,0%
Total revenues from sales	**1 374 291**	**100%**	**1 381 173**	**100%**

The key customer of the Group is PKP Polskie Linie Kolejowe S.A. („PKP PLK S.A.”), and other customers, among many, are as follows: Generalna Dyrekcja Dróg Krajowych i Autostrad [General Directorate for National Roads and Motorways], Litewska Administracja Drogowa [Lithuanian Road Administration] and the Vilnius City Office.

The customer structure demonstrates that the Group is still greatly dependent on PKP PLK SA, whose share in the consolidated revenues from sales in 2017 is approximately 45%. Since the establishment the Group, this has been the key customer. The second largest customer, Litewska Administracja Drogowa, has an 8%-share in the consolidated revenues in the year concerned. None of the aforementioned customers have been officially related to the Group.

The supplier structure in the analysed period demonstrates that the Group is not heavily dependent on any supplier. In 2017 the share of any of the suppliers did not exceed 10% of the purchases of materials and services by the Group. The share of the largest supplier in the total purchases of materials and services was approximately 3.5%.

2.4. Events of 2017

Significant construction contracts	**CR**
The Management Board of Trakcja PRKiI S.A. ("the Company”, "the Issuer") hereby announces that the Company, acting as the Consortium Leader, concluded an Agreement with PKP PLK S.A. for the design and implementation of construction works as part of the project: "Work on the railway lines No. 140, 148, 157, 159, 173, 689, 691 at the section Chybie – Żory – Rybnik – Nędza / Turze" under the Operational Programme Infrastructure and Environment (POIiŚ) 5.2-5 amounting to net PLN 373.7 million (hereinafter "the Agreement"). The planned Issuer's share is net PLN 124.5 million. The works are to be completed within 30 months from the date of signing the Agreement.	2/2017
The Management Board of Trakcja PRKiI S.A. ("the Company”, "the Issuer") hereby announces that the Company, acting as the Consortium Leader, concluded with PKP PLK S.A. an Agreement for the implementation of construction works in the area of LCS Łowicz – section Sochaczew – Żychlin and section Placencja – Łowicz Główny as part of the project "Works on the railway line E20 at the section Warszawa-Poznań – other works, section Sochaczew-Swarzędz", being implemented under the EU financial instrument "Connecting Europe Facility" (CEF). The planned Issuer's share is net PLN 428.5 million. The works are to be completed within 42 months from the date of the commencement of work.	5/2017
The Management Board of Trakcja PRKiI S.A. ("Company", "Issuer") hereby informs that the Company signed the contract with PKP PLK S.A. for design and performance of activities in the format - "design and construct" with respect to the following: Task A: preparation of design documentation and implementation of construction works under the project: "Revitalization of railway line no. 405, section boundary of the voivodeship – Słupsk-Ustka", Task B: design and development of control-command and signalling devices from Szczecinek train station from 71,480 km to km 104,515 (boundary of West Pomeranian Voivodeship and Pomeranian Voivodeship), under the project: "Improvement of safety and elimination of exploitation risks on the railway network". Net value of the contract is PLN 165 million. The works shall be carried out within 31 months from the date of their commencement.	10/2017
The Management Board of Trakcja PRKiI S.A. ("the Company, "the Issuer") hereby announces that the Company have concluded today an Agreement for the design and implementation of construction works on the railway line E20 Siedlce – Terespol as part of the task "Works on the railway line E 20, section Siedlce – Terespol, STAGE III – LCS Terespol". The net value of the contract amounts to PLN 417.5 million. The works are to be completed within 36 month from the date of the commencement of work.	15/2017
The Management Board of the company Trakcja PRKiI S.A. (“the Company”, “the Issuer”) informs that today it was notified of signing an agreement by the Issuer’s subsidiary – AB Kauno tiltai (with its registered office in Lithuania) with the Lithuanian Road Administration at the Ministry of Transport on “the development of the road E67 (VIA BALTIVA) of the trans-European road network. Development of the Kaunas - Marijampolė section. Stage 1. Reconstruction of the road section A5 Kaunas - Marijampolė - Suwałki from 23.40 to 35.40 km” (hereinafter referred to as the “Agreement”). The Agreement has been concluded under a consortium and the Agreement’s net value amounts to EUR 30,503,447 (PLN 128,087,024.30).	21/2017

Other	**CR**
The Management Board of Trakcja PRKiI S.A. (the Company) hereby makes public the dates of publication of periodic reports in 2017.	1/2017
The Management Board of Trakcja PRKiI S.A. ("The Company") hereby informs that on 9 March 2017, a test was performed for the impairment of goodwill attributable to a cash-generating unit composed of the following subsidiaries: Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o., Dalba Sp. z o.o. and Przedsiębiorstwo Drogowo-Mostowe Białystok S.A., the Management Board decided to write down the value of this asset in the consolidated balance sheet of Grupa Trakcja in the amount of PLN 11,799 thousand.	3/2017

The Management Board of Trakcja PRKiI S.A. (the Issuer), due to an obvious typographical error made in the table entitled "Operating Segments" of the "Consolidated annual financial statement for the financial year that ended on 31 December 2016" hereby submits the enclosed revised wording of this table.	4/2017
The Management Board of Trakcja PRKiI S.A. ("the Company") announces that today it has approved a resolution on distribution of profits for 2016, recommending the Annual General Meeting of Shareholders of the Company to allocate the profit of PLN 28,698,634.86 as follows: - the amount of PLN 22,615,801.12 (i.e. PLN 0.44 per one share) for the payment of dividend, - the amount of PLN 6,082,833.74 for supplementary capital.	6/2017
With respect to the Current Report no. 6/2017, the Management Board of Trakcja PRKiI S.A. (“Company”) hereby informs that today the Supervisory Board, after consideration of the motion of the Management Board regarding the division of the Company’s 2016 profit, passed a resolution proposing to following division of the profit from the period 1 January 2016 to 31 December 2016 in the amount of PLN 28 698 634,86: - the amount of PLN 25 699 774,00 (i.e. PLN 0.5 per share) for dividend payment; - the amount of PLN 2 998 860,86 for supplementary capital.	7/2017
The Management Board of Trakcja PRKiI S.A. ("Company") hereby informs that the Supervisory Board of the Company, on 23 May 2017, pursuant to Article 16 sec. 2 point 7 of the Articles of Association, appointed Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k. as an entity entitled to audit financial statements.	8/2017
In 24.05.2017 the Management Board of Trakcja PRKiI Spółka Akcyjna convenes the General Meeting of Shareholders of Trakcja PRKiI S.A. on 27 June 2017, at 9:00 a.m. in Warsaw	9/2017
The Management Board of Trakcja PRKiI S.A. ("Company", "Issuer") has enclosed responses to the questions asked in writing by Powszechne Towarzystwo Emerytalne PZU S.A. acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień" - Shareholder of the Company, on 16 May 2017, pursuant to 428 § 6 of the Code of Commercial Companies.	11/2017
The Management Board of Trakcja PRKiI S.A. (“Company”) announces that today the Annual General Meeting of Shareholders of the Company adopted a resolution (resolution No. 6) according to which the Company’s profit for 2016 in the amount of PLN 28 698 634,86 shall be allocated as follows: - the amount of PLN 25 699 774,00 (i.e. PLN 0,5 per share) to dividend payment, - the amount of PLN 2 998 860,86 to increase the supplementary capital.	12/2017
The Management Board of Trakcja PRKiI S.A. ("Company") hereby makes public the wording of the resolutions adopted at the Annual General Meeting of Shareholders of the Company held on 27 June 2017.	13/2017
The Management Board of PRKiI S.A. in Warsaw (“Company”) presents in Appendix 1 to this report a list of shareholders holding at least 5% of the total number of votes at the Annual General Meeting of Shareholders held on 27 June 2017 in Warsaw.	14/2017
The Management Board of Trakcja PRKiI S.A. (the “Company”) informs that the process of collecting financial data for the purposes of drawing up the Company’s financial statement and Trakcja Capital Group’s consolidated financial statement for the period of 9 months ended on 30 September 2017, was completed on 27 October 2017. Therefore, the Company publishes the preliminary financial results for this period.	17/2017
The Management Board of the company Trakcja PRKiI S.A. (“the Company”, “the Issuer”) informs that today the company received a notification pursuant to Article 19, section 1 of the MAR submitted together by Jarosław Tomaszewski (President of the Management Board of the Issuer) and Maria Joanna Tomaszewska as a person closely related with Jarosław Tomaszewski (wife).	18/2017
The Management Board of the company Trakcja PRKiI S.A. (“the Company”, “the Issuer”) informs that the company received two notifications pursuant to Article 19, section 1 of the MAR submitted by Comsa S. A. as an entity closely related with Fernando Perea Samarra and Jorge Miarnau Montserrat (members of the Issuer’s Supervisory Board).	19/2017 i 20/2017

The Management Board of Trakcja PRKiI S.A. (hereinafter referred to as: "the Company") informs that on 22 December 2017 the Agreement was bilaterally signed by PKP Polskie Linie Kolejowe S.A. ("PKP PLK") and Contractors represented by the Company (the Consortium Leader) in order to settle the Contract no. 90/119/0002/11/Z/I of 27.05.2011 on the execution of construction works regarding modernisation of the railway line no. 9 at the section between 236,920 km and 287,700 km covered with the area of the Computer Based Interlocking with its registered office in Malbork (Contract). The Company informed about concluding the Contract with current report no. 35/2011 of 27.05.2011.The Agreement was concluded with regard to the claims raised by the Contractor related with the settlement of works and the reimbursement of costs resulting from prolonging the Contract.Total amount of the Agreement is PLN 19,538,558.89.	23/2017

Changes in the Management Board	**CR**
The Management Board of Trakcja S.A. (the "Company") hereby announces that on 14 September 2017 the Supervisory Board of the Company adopted a resolution on appointing Mr Maciej Sobczyk as Vice-President of the Management Board, as of 14 September 2017.	16/2017
The Management Board of Trakcja S.A. ("the Company", "the Issuer") informs that the Supervisory Board of the Company adopted on 30 November 2017 a resolution, under which Mr. Aldas Rusevičius was appointed the Deputy President of the Management Board of the Company as of 30 November 2017.	22/2017

2.5. Significant events and achievements of Trakcja Group which have a considerable impact on its activities

Long-term contracts for construction services performed by the companies within the Group have a major impact on their financial performance in 2017 and in the following years. The most considerable contracts performed in the course of 2017 are listed in Note 2.1 hereof. Information regarding the most significant contracts for construction services concluded in 2017 is presented in Note 2.6 hereof. Significant events after the balance sheet date are described in Note 5.7 hereof.

Termination of the optimisation of the Trakcja PRKiI organisational structure

In view of the significant delay of the Financial Framework 2014-2020 in terms of public tenders to be announced on the infrastructure market, mainly the rail one, the Management Board decided in 2016 to optimise the Company's organisational structure, which in result led to the reduction in the number jobs under Article 2 para. 3 and 4 of the Act on Particular Rules of Terminating Employment Relationships with Employees for Reasons not Related to the Individual Employees Concerned of March 13, 2003 (Journal of Laws of 2003, No. 90, item 844, as amended). On September 22, 2016 the Company's Management Board issued the Regulations on Collective Redundancies and provided relevant information thereon to the trade unions operating within the Company.

In 2017 the Parent Company completed the Company's restructuring process, which had been started in 2016, and having settled the provision for benefits paid to redundant workers derecognised it in the amount of PLN 1 831 thousand. The Issuer informed about the recognition of the provision in Current Report No. 23/2016.

The Group continues to diversify its activities. In the recent years it has significantly strengthened its position on the road market and maintained its strong position on the rail construction market. The Group has also taken measures aimed at strengthening its position on other geographical markets and in other segments of the infrastructural construction sector. The Parent Company operates in the tram segment (urban market). It also carries out activities on the energy market.

2.6. Contracts significant for the Company's operations

2.6.1. Key contracts for construction services

The most significant construction contracts entered into by the Trakcja Group in 2017 are as follows (the amounts specified include the value of construction works allocated to consortium members):

No.	Name of contract	Contract value (mPLN)	Company	Work types
1.	Execution of construction works in LCS Łowicz – section: Sochaczew – Żychlin and section: Placencja – Łowicz Główny as part of the task "Works on the E20 railway line on the Warszawa-Poznań section – other works, section: Sochaczew-Swarzędz"	428	Trakcja PRKiI S.A.	rail works
2.	Design and execution of construction works on the E20 railway line, section: Siedlce-Terespol within the task "Works on the E20 railway line on the Siedlce - Terespol section, stage III - LCS Terespol"	418	Trakcja PRKiI S.A.	rail works
3.	Design and execution of construction works within the project „Works on the railway lines no. 140, 148, 157, 159, 173, 689, 691 on the Chybie – Żory – Rybnik – Nędza / Turze section"	374	Trakcja PRKiI S.A.	rail works
4.	Task A: Preparation of project documentation and execution of the construction works under the project „Revitalization of railway line no. 405, section: voivodeship border – Słupsk–Ustka", Task B: Design and building of srk machines from railway station Szczecinek km 71,480 to km 104,515 within the project „Increase of safety and liquidation of operating dangers at the rail network"	165	Trakcja PRKiI S.A.	rail works
5.	Construction and extension of provincial road no. 682 on the Łapy-Markowszczyzna section	142	Trakcja PRKiI S.A.	road works
6.	Development of the Trans-European Road Network E67 (VIA BALTICA). Development of Kaunas-Marijampolė section. Stage I Road A5 Kaunas-Marijampolė-Suvalkai section 23.40 - 35.40 km reconstruction.	128	AB Kauno Tiltai	road works
7.	Construction and extension of the provincial road no. 676 on the Białystok-Supraśl section	99	Trakcja PRKiI S.A., PEUiM Sp. z o.o.	road works
8.	Construction and extension of the provincial road no. 548 on the Stolno-Wąbrzeźno section	68	Trakcja PRKiI S.A.	road works
9.	Design and execution of construction works within the task „Works on the railway line no. 201 on the Nowa Wieś Wielka - Maksymilianowo section" - stage II	60	Trakcja PRKiI S.A.	rail works
10.	Task 1: Construction and extension of the provincial road no. 685 on the Zabłudów-Nowosady section	39	PEUiM Sp. z o.o.	road works
11.	Reconstruction of the national road no. 6 Šilutė-Rusnė	33	AB Kauno tiltai	road works
12.	Extension of the national road no. 22 on the Czarlin - Knybawa section	28	Trakcja PRKiI S.A.	road works
13.	Construction of the Sitarska street extension in Białystok	28	PEUiM Sp. z o.o.	road works
14.	Design and execution of two level intersections in Kobyłka Ossów, Kobyłka, Jasienica Mazowiecka, Łochów and Topór	28	Trakcja PRKiI S.A.	road works
15.	Design and execution of construction works on the Poznań Wschód - Mogilno section within the task: „Works on the railway line no. 353, section: Poznań Wschód-Dziarnowo"	27	Trakcja PRKiI S.A.	rail works
16.	Extension of provincial road no. 224, section: Godziszewo - Stanisławie	20	Trakcja PRKiI S.A.	road works
17.	Other contracts	406	-	different
	TOTAL	**2 491**		

2.6.2. Insurance contracts

The Parent Company and Group companies have acquired standard insurance policies that ensure insurance coverage for movable assets against damage and for third part liability in relation to the business activities carried out and the assets owned. They also have insurance contracts for construction risks. In addition, the Group acquired standard insurance policies that provide third party liability insurance to members of corporate bodies of the Company and Group companies.

The aforementioned insurance contracts have been entered into with the following insurance companies: Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A., STU Na Życie Ergo Hestia S.A., Allianz S.A., PZU S.A., AXA Towarzystwo Ubezpieczeń i Reasekuracji S.A., InterRisk Towarzystwo Ubezpieczeń S.A., Lietuvos draudimas AB, Balta AAS, ERGO Insurance SE Lithuanian Branch, ADB Gjensidige i P&C Insurance AS, AAS „BTA Baltic Insurance Company" filialas Lietuvoje, Gjensidige Forsikring ASA, Norge, Svensk filial.

Third party liability insurance contracts for the Management Board members have been made with AIG Europe Limited Sp. z o.o. Branch in Poland and with Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A.

2.6.3. Collaboration and cooperation agreements

The Group has framework cooperation agreements for financial market transactions signed with mBank S.A. and Luminor Bank AB. Their provisions define the rules for cooperation in the area of financial market transactions between the Group and the bank concerned. Trakcja PRKiI and mFaktoring S.A. concluded a recourse factoring agreement for an indefinite period.

2.7. Key deposits and capital investments

2.7.1. Capital expenditure

In 2017 the Group's capital expenditure was PLN 55 052 thousand.

In 2017 the Group completed the following projects:

	Acquisition for cash	Leasing	Loans and borrowings	Total
Development investments	12 426	8 196	7 721	**28 343**
Replacement investments	18 657	1 337	-	**19 994**
Modernization investments	4 216	-	2 500	**6 716**
Total	**35 299**	**9 533**	**10 221**	**55 053**

In 2016 the Group completed the following projects:

	Acquisition for cash	Leasing	Loans and borrowings	Total
Development investments	14 904	16 275	-	**31 179**
Replacement investments	6 003	1 804	-	**7 806**
Modernization investments	9 522	-	-	**9 522**
Total	**30 429**	**18 079**	**-**	**48 508**

Within the individual operating segments capital expenditure was as follows:

- Civil engineering – Poland – PLN 35 193 thousand (in 2016: PLN 34 333 thousand).

- Construction, engineering and concession agreements – Baltic States – PLN 19 860 thousand (in 2016: PLN 14 174 thousand);

- Other segments – PLN 0 thousand (in 2016: PLN 0 thousand).

Key development expenditure was as follows: the acquisition of new equipment storage facility in Bieńkowice, the modernisation of SM42-2376 and SM42-2377 diesel locomotives (financed through a finance lease), the post-lease purchase of KK2750 pile driver, and the purchase of a Plassermatic tamping machine.

Key replacement expenditure was as follows: the replacement of construction equipment (excavators, bulldozers, charging cars, tippers, rollers, graders, pavers, milling machines) and of IT equipment (servers, computers, mobile phones).

Key modernisation expenditure consisted in expenses on the bituminous mass production plant and on the modernisation of WM-15H rail vehicle.

In 2018 the Group expects to incur capital expenditure in the amount of approximately PLN 44 221 thousand. It is to be financed as follows:

Cash	22 621
Financial leasing	21 600
Loans and borrowings	-
Total	**44 221**

In the opinion of the Management Board, the Group is capable of ensuring own funds from the operating activities and finance leases in order to meet the current and future capital expenditure.

2.7.2. Equity investments, including equity investments outside the Group and methods for funding them

In 2017 the Group made equity investments.

In 2017, the following entities were established:

- a subsidiary named ТРАКЦІЯ УКРАЇНА (Trakcja Ukraina Sp. z o.o.) in Ukraine with its two subsidiaries: Trakcja Infra Sp. z o.o. and Trakcja Asfalt Sp. z o.o.;

- a branch of Trakcja PRKiI S.A. in Ukraine;

- a branch of AB Kauno Tiltai in Ukraine.

The new entities are described in detail in Note 1.2 hereto.

2.8. Strategy and development of the Group

In 2017 the Group successfully continued its organisational and legal restructuring process in order to achieve synergies and enhance its operational efficiency and financial power.

In 2018 Trakcja Group expects to continue to improve the Group's performance, guided by the following strategic principles:

- Development through organic growth;
- Implementation of the contract-orientated organisational structure;
- Enhancement of effectiveness and efficiency through a better organisation of works, better use of synergies, and incentive schemes;
- Improvement in cash flow management and reduction in debt;
- Intensified use of its own resources during the performance of contracts;
- Selective approach to the performance of contracts under consortium agreements.

Key success factors of Trakcja Group include both the incentive systems that encourage employees to seek further improvements in operational activities and the knowledge-sharing systems between the Group members.

Strengthening the Group's position on the Polish railway market of construction and assembly services

In 2018 and subsequent years, the Management Board of Trakcja PRKiI expects to focus its operations on the Polish railway market of construction and assembly services and to strengthen its market position on the road market. This objective can be achieved thanks to the effective organisational and financial support for the tendering and contracting area and for the contract implementing area through the establishment of new units, in particular, the Production Preparation and Project Optimisation Department.

A key goal in the area of financial management will be a more effective working capital management. Its expected effects include better financial liquidity, minimisation of demand for working capital and maintenance of the Company's debt at a safe level.

Strengthening the Group's position on other markets

In 2017 the Group established branches of the Parent Company and AB Kauno Tiltai in Ukraine. In addition, Trakcja Ukraina Sp. z o.o. was established in Ukraine along with its two subsidiaries: Trakcja Infra Sp. z o.o. and Trakcja Asfalt Sp. z o.o. In December 2017 Trakcja Infra and a private entity concluded an agreement for the production and use of bituminous mass at the Central Bridge in Dnipro. In January 2018 Trakcja Asfalt and a municipal company of the City of Dnipro concluded an agreement for the production of bituminous mass, and in February 2018 Trakcja Infra and the City of Dnipro entered into an agreement for the road repairing works.

Furthermore, in March 2017 Trakcja PRKiI was certified to meet the VOB standards (German constructions standards), which enables it to take part in public tenders launched in Germany. Due to its widespread recognition in the industry, the VOB certification is often required also by private contracting entities. The VOB certification also gives the Company a better starting position to acquire industry certification that grants access to the very promising German energy market.

Diversification of the Group's activities

In order to diversify its activities, the Group started operating on the energy market, i.e. constructing 110 kV, both cable and overhead, high-voltage lines, and medium-voltage power supply lines, including 15 kV auxiliary power supply lines for the rail infrastructure, along with transformer substations, and low-voltage lines for lighting systems, fire protection systems, lightning protection system, railway traffic and passenger infrastructure control systems and other safety systems.

2.9. Group development perspectives

The Management Board believes that the Group has prospects for growth in 2018. As at December 31, 2017 the portfolio of construction contracts was PLN 1 782 million (excluding any revenues allocated to consortium members).

Trakcja Group consistently develops competences in various infrastructural construction sectors. The Parent Company actively participates in the rail construction projects scheduled for the nearest future. According to the updated National Rail Programme adopted by the Council of Ministers on November 23, 2016, the value of rail construction projects is expected to exceed PLN 60 billion by 2023. The Group will also participate in tenders for road construction contracts. The expected value of the projects implemented under the National Roads Construction Programme and the projects carried out by the local road infrastructure managers is PLN 107 billion. In addition, in the preparation for the potential contracts awarded under the local government programmes, the Parent Company established a structure of regional road offices in six different locations in Poland. The Parent Company has started its expansion into the urban market of tram transport services and simultaneously focuses on the further development on the energy market, in particular, in the area of constructing and modernising transmission lines and of supplying electricity to facilities.

2.10. Description of external and internal factors significant from the point of view of the Group's development

Key factors which, in the opinion of the Management Board of the Parent Company, have now or may have in the nearest future an impact on the Group's activities are presented below. Information regarding important proceedings and disputes against, and also penalties imposed on, the Group companies is provided in Note 5.6 hereto.

The most important external factors that have a significant impact on the financial performance of the Group include the following:

- Level of expenditure incurred on the rail and road infrastructure in Poland and in Lithuania;
- Efficient opening and signing of contracts by the contracting entities;
- Competition;
- Absence of market barriers;
- Prices of raw materials and construction materials;
- Fluctuations of foreign exchange rates, in particular, EUR;
- Impact of the Central Bank's monetary policy on the interest rate changes;
- The timeliness in repayment of liabilities by customers;
- A decrease in the number of entities participating in tenders on the Polish railway market;
- Changes in legal regulations designating the scope of the Group's activities, including tax regulations and provisions of law regarding any other encumbrances of a public and legal nature.

The most important internal factors that have a significant impact on the financial performance of the Group include the following:

- Accuracy of the project cost estimates, as it exerts a direct impact on decisions regarding the participation in tenders, valuation of contracts for tenders and as a result margins on contracts;
- Ability to win new construction contracts;
- Contracts awarded under the National Railway Programme up to 2023;
- Contracts awarded under the National Road Construction Programme (2014-2023, with a perspective to 2025);
- Ability to attract highly qualified staff;
- Ability to implement the Issuer's development strategy;
- Ability to further diversify the Company's activities.

2.11. Risk and threat factors

When carrying out its business activities Trakcja Group is exposed to various types of risk, which can be divided into the following categories:

- Industry risk,
- Contract completion risk,
- Financial risk.

Industry risk

The Group is exposed to a risk of growing competition. The rail and road construction markets in Poland and in Baltic States, where the Company carries out its activities, are attractive due to the expected significant capital expenditure. Entry barriers to the rail and road construction market in Poland and in Baltic States are not high, and therefore the number of new market participants is continuously growing. In addition, a key factor that has an effect on the Trakcja Group's market position is the financial plans of the Polish and Lithuanian governments with regard to the modernisation of infrastructure.

This industry risk may have a crucial impact on the Group's development perspectives and its financial situation. A competitive advantage of Trakcja Group is the 70-year market practice of the Group companies, which allowed the Group to develop the work order completion systems of high quality, highly appreciated by the Partners. The Group's main attributes include its ability to provide for the comprehensive performance of projects within its own capacity in all industries (railway track works, engineering facilities and overhead contact lines), its portfolio of contracts awarded and:

- its highly qualified management along with the customer-orientated team,
- its wide experience of professional performance and coordination of works that are completed in a timely manner and according to the highest European standards,
- its modern machinery.

The Group has a competitive advantage over many companies, and its position on the market of services relating to the rail and road infrastructure both in Poland and in Baltic States is grounded and stable. The aforementioned strengths of the Company mitigate the risk of growing competition.

Contract completion risk

An inherent risk related to the Trakcja Group's activities is the contract completion risk. This risk may be affected by the following factors: failure to obtain administrative decisions provided for, in particular, by the provisions of the Construction Law, the Code of Administrative Procedure or the Environmental Protection Law by the required deadlines; changes in the prices of materials and raw materials; changes in the prices for services provided by subcontractors; failure to complete or delay in completion by the subcontractors of the works necessary for the commencement of the project implementation; underestimation of costs; potential penalties for improper performance of contracts; adverse weather conditions. The risk of cost underestimation may occur when works required for the order to be completed and their price are difficult to identify at the preparation stage of a tender by the Group. When performing the construction contracts awarded, the Group company concludes agreements with subcontractors usually after the signing of the agreement with the investor, which may result in risk that the price of service provided for the Group by the subcontractors will be higher than the price forecast at the valuation of a given contract and at its signing. Prices in the agreements with the investor are fixed and cannot be changed during the duration of the contract. Trakcja Group bears a risk of non-compliance with the deadlines for the completion of the construction contracts awarded and the retention bonds granted, which in turn may result in the investor being entitled to take advantage of the collateral established or to impose contractual penalties. The Group is also exposed to a risk of potential disputes regarding the proper or untimely completion of the aforementioned contracts. The aforementioned factors may have an adverse impact of the Issuer's financial performance.

The Issuer's Management Board takes certain measures aimed at mitigating the aforementioned risks, for example, through the implementation of a modern contract management system that allows for budgets and schedules to be managed for many large projects implemented at the same time, based on the detailed data entered in the system in real time. In addition, the Group continuously monitors the prices for services provided by subcontractors in order to make sure that the parameters of the contracts made are adjusted accordingly to the duration of the contracts and their value in market terms. Thanks to the initiative of implementing a centralised procurement system for all the implemented projects and all the organisational support services, the Group expects to achieve essential and permanent cost savings and to optimise its purchases. Furthermore, the long-term market practice has enabled Trakcja Group to develop management techniques for the projects performed, which ensure that the Group companies are able to complete the works assigned to them within the agreed schedules and that simultaneously the required quality is maintained and the special requirements of investors are met.

Financial risks

The Group is exposed to a financial risk which comprises mainly a risk of financial agreements and a liquidity risk. The risk of financial agreements results from the fact that both banks (in the area of loans and contract guarantees) and insurance companies (in the area of contract guarantees) may reduce the availability of sources of funding and other financial instruments which may in turn adversely affect the performance of contracts. In 2017 the Group's ability to acquire sources of funding for guarantee products remained unchanged. The Group monitors the capital structure using the financing structure. The ratios analysed by the Group allow for the good credit rating to be maintained and confirm that the Trakcja Group's capital structure supports its operating activities.

Key factors necessary for an insolvency risk to be analysed are the level of cash flows, the amount of cash and the liquidity ratios. The Group monitors the cash at hand and maintains both the external debt and the financial liquidity at a safe level. Any temporary cash surpluses are invested in short-term bank deposits. In order to avoid any potential threats in the future and to minimise the liquidity risk, the Group develops long- and short-term analyses and forecasts which allow for the Group's cash requirement to be defined. As a result of such actions the Company is able to plan in advance its inflows and outflows and to determine an optimal level of cash and method for financing its future expenses.

Any other factors, except for the aforementioned ones, which may cause fluctuations in prices of shares in Trakcja PRKiI, include the following:

- Change in the Group's creditworthiness,
- Change in the Group's debt,
- Disposal or purchase of assets by the Group,
- Significant changes in the shareholdership of the Issuer,
- Changes made by the capital market analysts to their forecast and recommendations for Trakcja PRKiI, its competitors, partners and sectors of economy, in which the Group operates.

The Issuer's Management Board, by keeping in contact with the Company's customers, consortium partners, subcontractors, banks and insurance companies, is primarily focused on preventing the materialisation of all these risks. These risks are managed by the most senior management of the Group.

3. ANALYSIS OF ASSETS AND FINANCIAL CONDITION OF TRAKCJA GROUP

3.1. Group's financial performance in 2017

3.1.1. Consolidated income statement of Trakcja Group

CONSOLIDATED PROFIT & LOSS ACCOUNT	1.01.2017 - 31.12.2017 *Audited*	1.01.2016 - 31.12.2016 *Audited*	Change	Change %
Sales revenues	1 374 291	1 381 173	(6 882)	0%
Cost of goods sold	(1 280 956)	(1 233 007)	(47 949)	4%
Gross profit on sales	**93 335**	**148 166**	**(54 831)**	**-37%**
Cost of sales, marketing and distribution	(5 430)	(6 261)	831	-13%
General and administrative costs	(50 991)	(61 170)	10 179	-17%
Other operating revenues	4 872	14 922	(10 050)	-67%
Other operating costs	(3 668)	(10 314)	6 646	-64%
Share of profit of entities consolidated using equity method	-	248	(248)	-100%
Goodwill impairment	-	(11 799)	11 799	-100%
Operating profit	**38 118**	**73 792**	**(35 674)**	**-48%**
Financial revenues	5 888	4 525	1 363	30%
Financial costs	(10 879)	(10 986)	107	-1%
Gross profit	**33 127**	**67 331**	**(34 204)**	**-51%**
Income tax	(1 084)	(10 999)	9 915	-90%
Net profit for the period	**32 043**	**56 332**	**(24 289)**	**-43%**

In 2017 Trakcja Group's revenues were PLN 1 374 291 thousand and their level was similar to the revenues reported in the preceding year. The cost of goods sold for the 12-month period of 2017 increased by 4% and was PLN 1 280 956 thousand. In 2017 the gross profit on sales was PLN 93 335 thousand and decreased by 37% lower than in the comparable period. The gross sales profit margin was 6.8% and was lower than in the preceding year (10.7%). The current contracts performed at the rail market in Poland have been awarded in a period of intensified competition, just after the launch of the new EU perspective, which translated into lower margins. In addition, the decrease in the gross sales profit margin was caused mainly by a change in the structure of the portfolio of contracts awarded to the Lithuanian members of the Group. However, the change should be considered only temporary. In 2016 the Lithuanian companies implemented several large projects which enabled them to achieve economies of scale. In 2017 however, the average value of the road contracts performed in Lithuania decreased significantly. Furthermore, the Lithuanian members of the Group did not perform any rail contracts due to the fact that no tenders for such contracts were launched. The Lithuanian companies put much emphasis on the high standards for quality of work, timeliness, safety and technological innovations. As smaller contracts were still announced, competitors with lower fixed costs were able to participate in tenders, which resulted in further pressure being put on the prices offered. New tenders are expected to be announced for large and significant contracts to be performed in the road and railway sectors in Lithuania. In such an event, the high standards of the Lithuanian members of the Group should give them a competitive advantage and deliver the expected positive results. On the other hand, the increase in the gross profit margin was caused by the signing between the Parent Company and PKP PLK S.A. of an agreement concerning the LCS Malbork contract. This in turn was a result of many months of negotiations, of which the Parent Company notified in Current Report No. 23/2017. The final effect of this event on the gross profit on sales was its increase by PLN 16 956 thousand. One of the Group companies, AB Kauno tiltai, reversed the provision of EUR 7 752 thousand which was created in 2015 for the court proceedings. The aforementioned event is described further in pt. 3.4. hereof.

The costs of sales, marketing and distribution was PLN 5 430 thousand, i.e. They were lower by 13% than in 2016. The general and administrative costs were PLN 50 991 thousand and decreased by 17%, i.e. by PLN 10 179 thousand, in comparison with their balance as at the end of the preceding period. In striving for reduction of costs, the Company decreased payroll costs and costs of consultancy.

The other operating revenues for the 12-month period of 2017 were PLN 4 872 thousand, and decreased by 67%, i.e. By PLN 10 050 thousand in relation to the comparable period. The other operating costs were PLN 3 668 thousand and decreased by PLN 6 646 thousand in comparison with 2016. The balance of the other operating activities decreased, as compared to 2016, by PLN 3 404 thousand due to the recognition of remeasuring of shares held in BTW in 2016 to fair value of PLN 7 112 thousand at the acquisition of the remaining shares in the company, and on the other hand, the recognition in 2016 of a provision for restructuring in the Parent Company in the amount of PLN 3 905 thousand.

In the analysed period, the Group’s profit on the operating activities was PLN 38 118 thousand, and was by 48%, i.e. by PLN 35 674 thousand lower than in the comparable period, when it was PLN 73 792 thousand.

The Group’s financial revenues for 2017 were PLN 5 888 thousand and increased by 30% in comparison to the revenues for 2016, when they amounted to PLN 4 525 thousand. The financial costs for the 12-month period ended December 31, 2017 were PLN 10 879 thousand and decreased slightly as compared to the previous year. The balance of financial activities increased mainly due to the recognition in 2017 of the revenues from interest on receivables and from reversed provisions for the interest on liabilities.

The Group’s gross profit for the period from January 1, 2017 to December 31, 2017 was PLN 33 127 thousand and decreased by PLN 34 204 thousand, i.e. by 51% in comparison with the previous year, in which the Group's gross profit was PLN 67 331 thousand.

The income tax for 2017 decreased the gross profit by PLN 1 084 thousand. In 2016 the income tax was PLN 10 999 thousand and also decreased the net profit.

Trakcja Group's net profit for 2017 was PLN 32 043 thousand. The Group’s net profit decreased by 43% as compared to 2016.

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3.1.2. Consolidated balance sheet of Trakcja Group

The consolidated assets of Trakcja Group are presented in the table below.

CONSOLIDATED ASSETS	31.12.2017 Audited	31.12.2016 Audited	Change	Change %
Non-current assets	**731 454**	**721 725**	**9 729**	**1%**
Tangible non-current assets	266 853	247 489	19 364	8%
Investment properties	20 097	21 226	(1 129)	-5%
Goodwill from consolidation	327 996	337 855	(9 859)	-3%
Intangible assets	53 753	55 291	(1 538)	-3%
Investments in other units	858	25	833	3332%
Other financial assets	44 147	46 502	(2 355)	-5%
Deferred tax assets	9 836	10 707	(871)	-8%
Prepayments	7 914	2 630	5 284	201%
Current assets	**710 826**	**675 008**	**35 818**	**5%**
Inventory	94 027	75 861	18 166	24%
Trade and other receivables	324 094	399 586	(75 492)	-19%
Należnosci z tyt. podatku dochodowego	9 642	-	9 642	na
Other financial assets	14 859	8 660	6 199	72%
Cash and cash equivalents	112 184	148 799	(36 615)	-25%
Prepayments	9 233	6 019	3 214	53%
Construction contracts and advances paid towards contracts being performed	146 787	36 083	110 704	307%
TOTAL ASSETS	**1 442 280**	**1 396 733**	**45 547**	**3%**

As at December 31, 2017, the total assets of Trakcja Group were PLN 1 442 280 thousand and higher by PLN 45 547 thousand in relation to their balance at the end of 2016. The non-current assets increased by PLN 9 729 thousand as compared to 2016 and as at December 31, 2017 were PLN 731 454 thousand. The current assets increased slightly, i.e. by PLN 35 818 thousand and were PLN 710 826 thousand.

The largest increase in the non-current assets resulted from an increase of PLN 19 364 thousand in the tangible non-current assets caused by capital expenditure incurred by the Group on machines and road and rail equipment (as detailed in Note 2.7.2.).

The current assets also increased in comparison to the previous year. The increase resulted from both an increase in the construction contracts and an increase in the advances for contracts, whose balance as at the balance sheet date was PLN 146 787 thousand (an increase of PLN 110 704 thousand, i.e. by 307%).

The consolidated equity and liabilities of Trakcja Group are presented in the table below.

CONSOLIDATED EQUITY AND LIABILITIE	31.12.2017 Audited	31.12.2016 Audited	Change	Change %
Equity attributable to shareholders of parent entity	**756 979**	**771 137**	**(14 158)**	**-2%**
Share capital	41 120	41 120	-	0%
Share premium account	309 984	309 984	-	0%
Revaluation reserve	5 765	5 765	-	0%
Other capital reserves	361 588	332 659	28 929	9%
Retained earnings	31 429	54 685	(23 256)	-43%
Foreign exchange differences on translation of foreign operations	7 093	26 924	(19 831)	-74%
Non-controlling interests	**5 055**	**4 830**	**225**	**5%**
Total equity	**762 034**	**775 967**	**(13 933)**	**-2%**
Total liabilities	**680 245**	**620 766**	**59 479**	**10%**
Long-term liabilities	**116 953**	**153 550**	**(36 597)**	**-24%**
Interest-bearing bank loans and borrowings	87 661	100 666	(13 005)	-13%
Provisions	11 917	27 650	(15 733)	-57%
Liabilities due to employee benefits	5 127	11 134	(6 007)	-54%
Provision for deferred tax	7 810	8 068	(258)	-3%
Derivative financial instruments	4 351	5 957	(1 606)	-27%
Other liabilities	87	75	12	16%
Short-term liabilities	**563 293**	**467 216**	**96 077**	**21%**
Interest-bearing bank loans and borrowings	28 538	22 003	6 535	30%
Trade and other liabilities	335 049	309 988	25 061	8%
Provisions	14 179	35 353	(21 174)	-60%
Liabilities due to employee benefits	12 762	11 424	1 338	12%
Income tax liabilities	-	4 922	(4 922)	-100%
Derivative financial instruments	960	1 018	(58)	-6%
Accruals	416	361	55	15%
Construction contracts and advances received towards contracts being performed	171 347	80 432	90 915	113%
Advances received towards flats	42	1 715	(1 673)	-98%
Total equity and liabilities	**1 442 280**	**1 396 733**	**45 547**	**3%**

As at December 31, 2017 the Group's equity increased by PLN 14 158 thousand, i.e. by 2% as compared to its balance as at December 31, 2016. The decrease was mainly caused by the dividends paid in the amount of PLN 25 700 thousand (in keeping with a resolution adopted by the General Meeting on June 27, 2017) and by a decrease in the foreign exchange differences arising from the conversion of foreign currencies by PLN 19 831 thousand.

As at December 31, 2017 the long-term liabilities were PLN 116 953 thousand and decreased by PLN 36 597 thousand as compared to the preceding year. The long-term interest-bearing loans and borrowings decreased by PLN 13 005 thousand and were PLN 87 661 thousand. As at December 31, 2017 the employee benefits liabilities were PLN 5 127 thousand and decreased by PLN 6 007 thousand as compared to the preceding year. The long-term provisions were PLN 11 917 thousand, which means that they decreased by PLN 15 733 thousand, i.e. by 57% as compared to the previous year.

The short-term liabilities increased by PLN 96 077 thousand, i.e. by 21% in comparison with their balance in 2016. As at the balance sheet date the trade and other liabilities were PLN 335 049 thousand and increased by 8% as compared to the previous year. The short-term interest-bearing loans and borrowings were PLN 28 538 thousand and increased by PLN 6 535 thousand in relation to their balance at the end of 2016.

3.1.3. Profitability ratios

The gross sales profit margin decreased by 3.9 p.p. in 2017 as compared to the preceding year and was 6.8%. The operating profit, including depreciation and amortisation and also goodwill impairment was PLN 67 069 thousand and decreased by PLN 41 940 thousand as compared to the previous year. The EBITDA margin decreased by 3 p.p. and was 4.9%. The operating profit margin was 2.8% and decreased by 2.6 p.p. as compared to 2016. The net profit margin decreased by 1.7 p.p. down to 2.3% as compared to 4.1% in 2016. The return on equity (ROE) decreased by 3.3 p.p. as compared to the previous year and was 4.2%. The return on assets (ROA) was 2.3% and by 1.9 p.p. lower than in the preceding year.

PROFITABILITY RATIOS	31.12.2017 Audited	31.12.2016 Audited	Zmiana
Gross sales profit margin	6,8%	10,7%	-3,9%
EBITDA	67 069	109 009	(41 940)
EBITDA profit margin	4,9%	7,9%	-3,0%
Operating profit margin	2,8%	5,3%	-2,6%
Net profit margin	2,3%	4,1%	-1,7%
Return on equity (ROE)	4,2%	7,5%	-3,3%
Return on assets (ROA)	2,3%	4,2%	-1,9%

The aforementioned ratios are calculated according to the following formulas:

Gross profit margin on sales = gross profit on sales / sales revenues

EBITDA = operating profit + depreciation and amortisation + goodwill impairment

EBITDA margin = (operating profit + amortisation and depreciation + goodwill impairment) / sales revenues

Operating profit margin = operating profit / sales revenues

Net profit margin = net profit / sales revenues

Return on equity (ROE) = net profit attributable to shareholders in the Parent Company / average equity attributable to shareholders in the Parent Company

Return on assets (ROA) = net profit attributable to shareholders in the Parent Company / average assets

Other financial ratios are presented in Note 3.2.

3.1.4. Consolidated statement of cash flows of Trakcja Group

The key items of the Trakcja Group's consolidated statement of cash flows for years ended December 31, 2017 and December 31, 2016 are presented in the table below.

CONSOLIDATED CASH FLOW ACCOUNT	1.01.2017 - 31.12.2017 *Audited*	1.01.2016 - 31.12.2016 *Audited*	Change	Change %
Cash at start of period	**146 360**	**251 317**	**(104 957)**	**-42%**
Net cash flows from operating activities	56 881	(39 418)	96 299	-244%
Net cash flows from investment activities	(38 395)	(30 967)	(7 428)	24%
Net cash flows from financial activities	(52 674)	(34 572)	(18 102)	52%
Total net cash flows	**(34 188)**	**(104 957)**	**70 769**	**-67%**
Cash at end of period	**112 172**	**146 360**	**(34 188)**	**-23%**

In 2017 the net cash flows from operating activities were positive and amounted to PLN 56 881 thousand. The net cash flows from operating activities in 2017 were by PLN 96 299 thousand higher than in 2016.

The Group’s net cash flows from investment activities were negative and amounted to PLN -38 395 thousand, and their negative amount in 2016 was PLN -30 967 thousand. The negative balance of the Group's investment activities was caused primarily by a purchase of tangible non-current assets.

In 2017 the net cash flows from financial activities were negative and amounted to PLN -52 674 thousand. Their balance was by PLN 18 102 thousand lower than in the preceding year.

At the beginning of 2017, the Group’s cash disclosed in the consolidated statement of cash flows was PLN 146 360 thousand, while at the end of 2017, it was PLN 112 172 thousand. The balance of cash dropped by PLN 34 188 thousand in 2017.

3.2. Structure of consolidated assets and equity and liabilities in terms of liquidity

As at December 31, 2017 and as at December 31, 2016 the share of non-current assets and current assets in the total assets is similar. The highest share in the non-current assets is the share of goodwill on consolidation which is approx. 45 % (31.12.2016: 47%). The highest share in the current assets is the share of trade and other receivables which is approx. 46% (31.12.2016: 59%) and of cash and cash equivalents which is approx. 16% (31.12.2016: 22%).

As at December 31, 2017 the total equity is 53% (31.12.2016: 56%), long-term liabilities are 8% (31.12.2016: 11%) and long-term liabilities are 39% (31.12.2016: 33%) of the total equity and liabilities. The highest share in the short-term liabilities is the share of trade and other liabilities which is approx. 23% (31.12.2016: 22%) of the total equity and liabilities.

The liquidity ratios and debt ratios calculated below show that the Group's liquidity is maintained at a safe level.

3.2.1. Liquidity ratios

In 2017 the Trakcja Group’s working capital was PLN 147 949 thousand and by PLN 60 203 thousand lower than in 2016.

At the end of 2017 the current ratio was 1.26 and by 0.18 lower than the current ratio in 2016. The quick ratio was 1.09 (a decrease by 0.19). The cash ratio was 0.20 (a decrease by 0.12 as compared to 2016). The cash ratio demonstrates that the Group would be able to immediately repay 20% of its liabilities in cash.

LIQUIDITY RATIOS	31.12.2017 Audited	31.12.2016 Audited	Zmiana
Working capital	147 949	208 152	(60 203)
Current ratioj	1,26	1,44	(0,18)
Quick ratio	1,09	1,28	(0,19)
Cash ratio	0,20	0,32	(0,12)

The above ratios have been calculated in accordance with the following formulas:
Working capital = current assets - short-term liabilities + prepayments
Current ratio = current assets / short-term liabilities
Quick ratio = (current assets - inventory) / short-term liabilities
Cash ratio = cash and cash equivalents / short-term liabilities

3.2.2. Debt ratios

The Group monitors its capital structure using debt ratios. The ratios analysed by the Group, as presented in the below table, allow for the good credit rating to be maintained and confirm that the Group's capital structure supports its operating activities.

The Group's debt ratios changed slightly due to the aforementioned events.

In 2017 the equity to assets ratio was 0.52 and decreased as compared to the end of the previous year. The equity to non-current assets ratio decreased slightly, i.e. by 0.04, and amounted to 1.03. The debt ratio increased and was 0.48 as at the end of 2017. That means that the Group's assets are financed in 48% by its debt (liabilities). The Group's debt to equity ratio as at December 31, 2017 was 0.91.

FINANCING STRUCTURE RATIOS	**31.12.2017 Badane**	**31.12.2016 Badane**	**Zmiana**
Equity to assets ratio	0,52	0,55	-0,03
Equity to non-current assets ratio	1,03	1,07	-0,04
Debt ratio	0,48	0,45	0,03
Debt to equity ratio	0,91	0,81	0,09

The above ratios have been calculated in accordance with the following formulas
Equity to assets ratio = Equity attributable to shareholders of parent entity / total assets
Equity to non-current assets ratio = Equity attributable to shareholders of parent entity / noc-current
Debt ratio = (Total assets - Equity attributable to shareholders of parent entity) / Total assets
Debt to equity ratio = (Total assets - Equity attributable to shareholders of parent entity) / Equity

3.3. Assessment of financial resources management

As at the end of 2017 Trakcja Group had cash in the amount of PLN 112 184 thousand and its total debt (loans, borrowings and finance lease) was PLN 116 199 thousand. The Group maintains both the external debt and the financial liquidity at a safe level. Any temporary cash surpluses are invested in short-term bank deposits.

The Group has at its disposal an overdraft and a working capital loan in the total amount of up to PLN 183 million, which provides the Group's companies with a stable level of financing for their ongoing contract activities. The Group also has been granted a factoring limit in the amount of PLN 50 000 thousand.

Trakcja Group conducts extensive cooperation with banks and insurance institutions in order to ensure the relevant level of financing and of bank and insurance guarantees which enable it to perform the construction contracts scheduled.

Through the renegotiation of the existing loan agreements and the establishment of business relationships with new banks and insurance companies, Trakcja Group improves its liquidity position and expands its external funding resources.

The Group uses various bank products and funding sources (overdrafts, investment loans, factoring, and finance lease) in order to minimise its financial costs and optimise its financial liquidity management.

3.4. Evaluation of factors and unusual events affecting the financial performance of the Trakcja Group in 2017

In 2017 the following factors and events of an extraordinary nature occurred which had an effect on the financial performance of Trakcja Group:

Termination of the optimisation of the Trakcja PRKiI organisational structure

In view of the significant delay of the Financial Framework 2014-2020 in terms of public tenders to be announced on the infrastructure market, mainly the rail one, the Management Board decided in 2016 to optimise the Company's organisational structure, which in result led to the reduction in the number jobs under Article 2 para. 3 and 4 of the Act on Particular Rules of Terminating Employment Relationships with Employees for Reasons not Related to the Individual Employees Concerned of March 13, 2003 (Journal of Laws of 2003, No. 90, item 844, as amended). On September 22, 2016 the Company's Management Board issued the Regulations on Collective Redundancies and provided relevant information thereon to the trade unions operating within the Company.

In 2017 the Parent Company completed the Company's restructuring process, which had been started in 2016, and having settled the provision for benefits paid to redundant workers derecognised it in the amount of PLN 1 831 thousand. The Issuer informed about the recognition of the provision in Current Report No. 23/2016.

Partial reversal of the provision created for the court proceedings between the consortium, one of the members of which is AB Kauno tiltai, and the Investor, AB Lietuvos geležinkeliai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, one of the members of which is the subsidiary, AB Kauno tiltai, for the total amount of PLN 64 591 497.18 (EUR 14 989 556.33). The share of Trakcja Group in the liabilities (if any) that may arise from these proceedings is 65%. In the course of the long-lasting process the court appointed an independent expert, who confirmed the opinion of the company that the aforementioned claim was unjustified. Therefore, the company's management believes that there is a substantial likelihood that the potential penalty will be significantly reduced. This allowed AB Kauno tiltai to reverse the provision of EUR 7 752 thousand which was created in 2015 for the contractual penalty accrued.

Signing of an agreement with PKP PLK S.A. in order to settle the Contract

After long negotiations, on December 22, 2017 PKP Polskie Linie Kolejowe S.A. and Contractors represented by the Parent Company entered into an agreement for the purpose of settling the Contract No. 90/119/0002/11/Z/I dated May 27, 2011 for the construction works modernising rail line no. 9 in the section from 236.920 km do 287.700 km which falls within the area of the Local Control Centre in Malbork. The total agreement amount is PLN 19 539 thousand. Its effect on the consolidated gross profit for 2017 was PLN 16 956 thousand.

3.5. Evaluation of potential completion of investment projects, including capital investments

In keeping with the analyses conducted by the Parent Company's Management Board, Trakcja Group is able to finance its current and future investment projects specified in Note 2.7.1 hereof using the funds generated from its operating activities and acquiring external funds.

3.6. Hedging transactions

Polish companies of Trakcja Group do not apply any hedge accounting, but the Lithuanian part of Trakcja Group, namely AB Kauno Tiltai - AB Kauno Tiltai and UAB Palangos aplinkkelis follow the principles thereof.

On June 5, 2013 one of the Issuer's subsidiaries, i.e. UAB Palangos aplinkkelis made an interest rate swap (IRS) transaction in order to hedge future cash flows expected to arise from interest to be paid on the term loan. Pursuant to the contract made, the company is a payee of amounts at a fixed rate, whereas the bank is a payee of amounts at a variable rate. The hedging relationship is set to expire on May 31, 2028.

On October 8, 2015 and October 14, 2015 one of the Issuer's subsidiaries, i.e. AB Kauno Tiltai made two interest rate swap (IRS) transactions in order to hedge future cash flows expected to arise from interest to be paid on the term loan. Pursuant to the contract, the company is a payee of amounts at a fixed rate, whereas the bank is a payee of amounts at a variable rate. The hedging relationships are set to expire on January 14, 2020.

As at December 31, 2017 a gain from remeasuring the aforementioned hedging instruments was recognised in liabilities in the amount of PLN 1 664 thousand, whereas a gain recognised in other comprehensive income was PLN 1 116 thousand. The level categories are described in detail in Note 40 to the Consolidated Financial Statements for 2017.

3.7. Explanation of differences between the actual and forecast financial performance of Trakcja Group

Trakcja Group did not publish any financial forecast in 2017.

4. SHARES AND SHAREHOLDERSHIP OF TRAKCJA PRKiI

4.1. Shareholdership

As at December 31, 2017 and as at the publication hereof, the Company's share capital, in accordance with the entry in the National Court Register, was PLN 41 119 638.40 and was divided into 51 399 548 ordinary shares with a nominal value of PLN 0.80 per share. Each share constitutes one vote at the Company's General Meeting.

To the best knowledge of the Parent Company's Management Board and in accordance with the notifications referred to in Article 69 referred to in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, shareholders that hold directly or through subsidiaries at least 5% of the total number of votes at the Company's Annual General Meeting ("AMG") as at the approval hereof were as follows:

Shareholders	Number of shares	% In the share capital	Number of votes	% In votes at GSM
COMSA S.A.*	16 156 193	31,43%	16 156 193	31,43%
Nationale-Nederlanden OFE	5 111 908	9,95%	5 111 908	9,95%
OFE PZU "Złota Jesień"	4 349 650	8,46%	4 349 650	8,46%
Other shareholders*	25 781 797	50,16%	25 781 797	50,16%
Total	**51 399 548**	**100,00%**	**51 399 548**	**100,00%**

*As a result of the acquisition by COMSA S.A. of shares in the Parent Company, notification of which was provided in Current Report No. 19/2017 and Current Report No. 20/2017, the number of shares held by COMSA S.A. increased in total by 313 000 shares. As neither Nationale-Nederlanden OFE nor OFE PZU Złota Jesień announced that they had sold their shares in the Parent Company, it was assumed that the shares were sold by other shareholders.

The shareholdership of TRAKCJA PRKiI S.A. determined in accordance with the notifications received (see above) differs from the shareholdership determined in accordance with the list of shareholders present at the last Ordinary General Meeting.

Shareholders holding at least 5% of the total number of votes, present at the Ordinary General Meeting held on June 27, 2017 were as follows:

Shareholders	Number of shares	% In the share capital	% In votes at GSM
COMSA S.A.	15 843 193	51,33%	30,82%
Nationale-Nederlanden OFE	4 890 000	15,84%	9,51%
OFE PZU "Złota Jesień"	4 839 000	15,68%	9,41%
AVIVA OFE AVIVA BZ WBK	2 569 000	8,32%	5,00%*
Other shareholders	23 258 355	8,83%	45,26%
Total	**51 399 548**	**100,00%**	**100,00%**

**AVIVA OFE AVIVA BZ WBK: 4.9981% of share in the total number of votes*

Since the publication of the last current report, i.e. since November 14, 2017, the Parent Company has not received any notifications from its shareholders informing it about any change in the total number of votes in the Parent Company.

4.2. Number and nominal value of shares in the Parent Company and shares in the Company's related parties held by members of the management and supervisory bodies

On November 17, 2017 the Parent Company was notified of the joint acquisition of 132 400 shares in the Company by Jarosław Tomaszewski (President of the Management Board of the Parent Company) and Maria Joanna Tomaszewska as a person closely related to Jarosław Tomaszewski (wife). The Parent Company notified thereof in Current Report No. 18/2017.

The Company's shares held by the Management Board members:

Name	Position	Number of shares	Par value of shares (in PLN)	% in the share capital
Jarosław Tomaszewski	President of Management Board	132 400	105 920	0,258%

To the best knowledge of the Management Board of the Parent Company, the remaining Management Board members and Supervisory Board members did not hold any shares in Trakcja PRKiI or entities within the Group as at the submission hereof.

Since the publication of the last interim report there have been no changes in the percentage of shares in the Company held by the members of its management and supervisory bodies.

4.3. Agreements concerning potential changes in the shareholdership

The Company's Management Board has no information about any agreements which could result in the future in changes in the current shareholdership of the Company.

4.4. Employee share programmes

In 2017 Trakcja Group did not have any employee share programmes.

4.5. Acquisition of own shares

In 2017 Trakcja PRKiI did not acquire own shares.

5. OTHER INFORMATION

5.1. Information about the loans and borrowings incurred and terminated

As at balance sheet date the loans and borrowings granted to Trakcja Group were as follows:

Company name	Lender	Type of loan/credit	Amount according to the agreement in the currency	Currency	Maturity date	Interests	Outstanding amount (in ths. PLN)
Trakcja PRKiI S.A.	mLeasing	investment loan	22 400	PLN	16.09.2019	WIBOR 1M + margin	8 761
Trakcja PRKiI S.A.	mBank S.A.	investment loan	21 500	PLN	30.09.2021	WIBOR 1M + margin	18 970
Trakcja PRKiI S.A.	mBank S.A.	overdraft	20 000	PLN	26.04.2018	WIBOR O/N + margin	-
Trakcja PRKiI S.A.	mBank S.A.	working capital loans	50 000	PLN	27.09.2019	WIBOR 1M + margin	-
Trakcja PRKiI S.A.	Pekao S.A.	working capital loans	20 000	PLN	31.05.2018	WIBOR 1M + margin	-
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	investment loan	1 747	PLN	30.11.2018	WIBOR 6M + margin	504
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	overdraft	2 500	PLN	28.02.2019	WIBOR 6M + margin	-
Bahn Technik Wrocław Sp. z o.o.	Plasser & Theurer, Export von Bahnbaumaschinen, Gesellschaft m.b.H.	investment loan	1 800	EUR	24.03.2020	fixed interest rate	5 631
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	investment loan	2 500	PLN	30.12.2020	WIBOR 1M + margin	2 093
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	overdraft	2 000	PLN	27.04.2018	WIBOR 1M + margin	-
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	working capital loans	3 000	PLN	27.04.2018	WIBOR 1M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital loans	14 000	EUR	31.08.2018	EURIBOR 3M + margin	-
AB Kauno Tiltai	Nordea	working capital loans	3 000	EUR	31.08.2018	EURIBOR 1M + margin	-
AB Kauno Tiltai	Dnb	working capital loans	3 000	EUR	31.08.2018	EURIBOR 3M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital loans	1 400	EUR	14.01.2020	EURIBOR 3M + margin	3 780
UAB Palangos aplinkkelis	SEB Bank	project purpose loans	8 500	EUR	31.05.2028	EURIBOR 3M + margin	32 639
UAB Pletros investicijos	Šiaulių plentas UAB	from other parties loan	363	EUR	31.12.2028	fixed interest rate	1 141
						Total	**73 520**

Loans and borrowings incurred in 2017

In the period concerned the Group's companies concluded agreements for the following loans and borrowings:

The Parent Company concluded the following agreements:

In the period covered hereby the Company did not sign any new loan or borrowing agreements. In the course of 2017 the Company signed annexes extending the terms of the following loans:

- overdraft up to PLN 20 000 thousand (agreement between the Company and mBank S.A.) – extended until April 26, 2018;

- working capital loan up to PLN 50 000 thousand (agreement between the Company and mBank S.A.) – extended until September 27, 2019;

- working capital loan up to PLN 20 000 thousand (agreement between the Company and Pekao S.A.) – extended until May 31, 2018.

The Issuer's subsidiaries concluded the following agreements:

In the period concerned PEUiM Sp. z o.o. and mBank S.A. entered into the following loan agreements:

- overdraft up to PLN 2 000 thousand (granted until April 27, 2018);

- working capital loan up to PLN 3 000 thousand (granted until April 27, 2018);

- investment loan of PLN 2 500 thousand (granted until December 30, 2020).

In 2017 Bahn Technik Wrocław Sp. z o.o. signed an annex extending the loan term until February 28, 2019 for the overdraft up to PLN 2 500 thousand granted by ING Bank Śląski S.A.

The purchase of rail equipment by BTW was financed with a trade credit granted by Plasser & Theurer, Export von Bahnbaumaschinen, Gessellschaft m.b.H. in the amount of EUR 1 800 thousand until March 24, 2020.

Loans and borrowings terminated or expired in 2017

The overdraft agreement concluded between BTW and Bank Zachodni S.A. for the overdraft up to PLN 2 500 thousand expired on June 30, 2017.

5.2. Information on borrowings extended in the financial year

A list of borrowings granted in 2017 by the Group companies, including borrowings granted to the related entities, is provided in the table below.

Company name	Lender	Amount in agreement currency	Currency	Maturity date	Interests	Amount left to be paid	Capital relationship
Trakcja PRKiI S.A.	Dalba Sp. z o.o.	1 000	PLN	31.03.2018	WIBOR 1M + Margin	1 012	subsidiary
PEUiM Sp. z o.o.	Dalba Sp. z o.o.	500	PLN	31.04.2017	fixed interest rate	-	subsidiary
PDM S.A.	Trakcja Ukraina	50	EUR	31.03.2018	EURIBOR 3M+ Margin	215	subsidiary
AB Kauno Tiltai	AB Kauno Tiltai Sverige	1 770	EUR	31.12.2017	fixed interest rate	-	subsidiary

5.3. Information on sureties and guarantees granted to and by the Company

In 2017 neither the Issuer nor its subsidiaries did grant any sureties for loans or borrowings or any guarantees to any entity or its subsidiary, the total of which would constitute an equivalent of at least 10% of the Issuer's equity.

In 2017 neither the Issuer nor its subsidiaries were granted any sureties or guaranties by the related entities.

5.4. Proceeds from the issue of securities

In the reporting period Trakcja PRKiI did not issue any securities, and therefore did not obtain any proceeds from the issue thereof.

5.5. Significant off-balance sheet items

	31.12.2017 Audited	31.12.2016 Audited
Contingent receivables		
From related entities due to:	**79 285**	**70 528**
Received guarantees and sureties	76 107	65 693
Bills of exchange received as collateral	3 178	4 835
Total contingent receivables	**79 285**	**70 528**
From related entities due to:		
From other entities due to:	**2 645 100**	**2 289 406**
Provided guarantees and sureties	796 255	605 412
Promissory notes	485 219	548 593
Mortgages	149 039	152 057
Assignment of receivables	1 071 118	851 469
Assignment of rights under insurance policy	54 301	48 412
Security deposits	22 174	14 280
Other liabilities	66 994	69 183
Total contingent liabilities	**2 645 100**	**2 289 406**

Contingent receivables from the guarantees and sureties granted include guarantees issued by banks and other entities for the benefit of the Group’s companies as collateral for the Group’s claims against the contractors under the construction contracts performed.

Contingent liabilities from the guarantees and sureties granted include primarily guarantees issued by banks for the benefit of contractors of the Group's companies as collateral for their claims against the Group’s companies under the construction contracts performed. Banks have a right of recourse against the Group’s companies. Promissory notes are a different form of collateral for the aforementioned bank guarantees.

In the period between the balance sheet date and the publication hereof, the Parent Company concluded new agreements for tender bonds, performance bonds and advance payment guarantees in the total amount of PLN 80 454 thousand.

5.6. Significant court cases and disputes

The Parent Company informs that as at December 31, 2017 the Parent Company and its subsidiaries were not parties to any pending court proceedings, arbitration proceedings or any proceedings before any public administration authority, the value of which would separately constitute an equivalent of at least 10% of the equity of Trakcja PRKiI S.A. The Parent Company also informs that the total value of the proceedings concerning its claims and liabilities constitutes at least 10% of the Parent Company's equity. As at December 31, 2017 the total value of proceedings concerning the Parent Company’s claims was PLN 160 326 513.79, and the total value of proceedings concerning the Parent Company’s liabilities was PLN 2 251 035.50.

The most significant proceedings concerning claims:

The case concerning claims against Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej in Warsaw (as at the commencement thereof, the case value exceeded 10% of the Company's equity)

The Parent Company merged with Przedsiębiorstwo Robót Kolejowych i Inżynieryjnych S.A. in Wrocław. As a result of the merger, the legal successor of both companies is Trakcja PRKiI S.A. in Warsaw. In connection with the announcement by the District Court of Warsaw-Praga Północ in Warsaw of the bankruptcy of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. (hereinafter referred to as the “PNI") with an option of composition, Przedsiębiorstwo Robót Komunikacyjnych i Inżynieryjnych S.A. in Wrocław provided a submission of claims of 20 November 2012 to the bankruptcy court. The submission of claims pertained to claims in the total amount of PLN 55 664 100.89, including the principal amount and the interest due up to the declaration of bankruptcy, as well as the accrued contractual penalties.

To the Parent Company's best knowledge, the list of claims towards PNI was drawn up. The claims of Trakcja PRKiI S.A. were recognised in the amount of PLN 10 569 163.16, including PLN 10 274 533.87 for the unpaid invoices and PLN 294 632.29 for the interest for delay in payment. The Company's receivables from contractual penalties and other claims in the total amount of PLN 44 956 834.35 were dismissed. The Parent Company did not agree with that dismissal; therefore, an objection was submitted to the judge commissioner concerning the dismissal in the aforementioned scope. The court had rejected the objection; therefore the Parent Company filed a complaint which was overruled. On June 8, 2015 the Parent Company received a notice from the trustee in bankruptcy on the change in the bankruptcy procedure from the arrangement bankruptcy to the liquidation bankruptcy. The case is pending and its resolution date is difficult to predict.

Submission of claims to the bankruptcy estate of Projekt-Bud Sp. z o.o. based in Warsaw

The Parent Company notifies that on March 10, 2015, by the decision of the District Court of the City of Warsaw in Warsaw, Projekt-Bud Sp. z o.o. was declared bankrupt (“Bankrupt”) with an option of arrangement. The Parent Company submitted its claims against the Bankrupt in total amount of PLN 9 708 613.62. The total amount of lodged claims comprised claims under the lease of locomotives and wagons, equipment rental, sales contracts, performed works and the contractual penalty charged against the Bankrupt. On December 31, 2015 PKP PLK made a direct payment of PLN 7 382 827.30. To the Company’s best knowledge, the list of claims towards Projekt-Bud Sp. z o.o. has been drawn up. Liabilities of Trakcja PRKiI S.A. were recognised in the amount of PLN 18 516.

Case against Leonhard Weiss International GmbH

As Leonhard Weiss International failed to respond to the statement including a debit note and a request for payment dated October 31, 2017, of which the Group informed in the consolidated report for the 9-month period ended on September 30, 2017 in Note 25 “Interests in joint ventures”, the Parent Company decided to take the case to court.
The case against Leonhard Weiss International GmbH (“LWI”) for payment due under the sale agreement of 50 % of shares in Bahn Technik Wrocław Sp. z o.o. The statement of claim was submitted to the Regional Court in Warsaw on December 29, 2017, but has not yet been served on LWI. Therefore it is impossible to precisely indicate the expected closing date of the case. The Parent Company expects that an enforceable solution may be issued in the second half of 2019 or in the first half of 2020.

The value of the Parent Company's claim is PLN 20 551 495.00, including the statutory interest calculated as follows:

1) on PLN 7 500 000.00 from November 17, 2017 to the payment date,
2) on PLN 12 756 000.00 from December 8, 2017 to the payment date,
3) on PLN 295 495.00 from December 8, 2017 to the payment date.

The Parent Company requested also that the defendant reimburse the Company with the costs of the proceedings, including the costs of legal representation, in accordance with the cost records. At this stage, it is impossible to objectively at least estimate the amount of interest and costs of the proceedings which could be ordered to be paid for the benefit of the Company.

The most significant proceedings concerning liabilities:

Case filed by Geomar S.A. with its registered office in Szczecin

In September 2016 Geomar S.A. with its registered office in Szczecin filed a case against Trakcja PRKiI S.A. for payment of PLN 376 189.25, requesting that remuneration be paid to it for additional costs of services rendered in the extended term. The Parent Company lodged an objection to the order for payment under the writ of payment proceedings. The case is pending.

Other proceedings:

On October 31, 2017 the Parent Company filed a case against PKP PLK S.A. for the payment of PLN 46 747 276.90 (including, interest of PLN 4 913 969.34), requesting that compensation be paid to it in connection with extension of the completion date of the agreement entitled: “Design and completion of construction works on the railway line Kraków – Medyka – State border, at the section Podłęże – Bochnia, km 16.000 – 39.000 as part of the project “Modernisation of railway line E 30/C-E30, section Kraków – Rzeszów, phase III” that a part of the lump-sum fee due to the Parent Company and unpaid by PKP PLK S.A. be paid to it for the groundless submission of the partial withdrawal from the agreement. On December 12, 2017 the Parent Company expanded the claim whose current value is PLN 50 517 012.38 (including, interest of PLN 5 336 177.01). The extension pertained to the Parent Company’s claims against PKP PLK S.A. in relation to the groundless enforcement of the contractual penalties accrued and the part of remuneration for the performance of the contract and agreements for additional works, which PKP PLK S.A. unreasonably refuses to pay. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On October 31, 2017 the Company along with Przedsiębiorstwo Budowlane “FILAR” Spółka z ograniczoną odpowiedzialnością based in Wrocław, and Berger Bau Polska Spółka z ograniczoną odpowiedzialnością based in Wrocław, has filed a case against PKP PLK S.A. for reimbursement of additional costs related with the extension of the completion date of the Contract No. 90/116/0006/11/Z/I for basic linear construction works at the section Wrocław – Grabiszyn – Skokowa and Żmigród – border of the Dolnośląskie Province within the scope of the project entitled “Modernisation of railway line E 59 at the section Wrocław – Poznań, Stage II – section Wrocław – border of the Dolnośląskie Province”. The Parent Company's portion of the claim is PLN 11 640 113.77 (including, interest of PLN 1 415 797.02). The case is at the early stage of proceedings and its resolution date is difficult to predict.

On October 31, 2017 the Parent Company filed a case in the payment order proceedings against PKP PLK S.A. for the payment of PLN 12 221 007.10 (including, interest of PLN 1 821 726.10), requesting that unjust enrichment in the form of unpaid remuneration be refunded for the completion:

a) of additional works in connection with Contract No. 90/132/121/00/17000031/10/I/I dated December 16, 2010 for the “Design and implementation of the construction works at the railway line Kraków – Medyka – national border, at the section Dębica – Sędziszów Małopolski (111.500 km – 133.600 km) under the project POIiŚ 7.1-30 “Modernisation of railway line E30/C-E 30, section Kraków – Rzeszów, phase III” Tender proceedings 2.2” in the total amount of PLN 7 570 281.00.

b) of additional works in connection with Contract No. 90/132/336/00/17000031/10/I/I dated November 29, 2010 for the “Design and implementation of the construction works at the railway line Kraków – Medyka – national border, at the section Sędziszów Małopolski – Rzeszów Zachodni under the project POIiŚ 7.1-30 “Modernisation of railway line E3/C-E 30, section Kraków – Rzeszów, phase III” Tender proceedings 2.3” in the total amount of PLN 2 829 000.00.

The case is at the early stage of proceedings and its resolution date is difficult to predict.

Apart from the proceedings specified above, which are reflected in the amounts stated at the beginning of the note, there are also other disputes pending within the Group:

PRK 7 Nieruchomości Sp. z o.o.

A case filed by Osiedle Lazurowe Commonhold against the company for the payment of PLN 700 466.50 together with interest from the date of filing the suit to the date of payment, is pending before the Regional Court in Warsaw. The Company challenges the claims included in the lawsuit, therefore the Company submitted a response to the lawsuit. In 2015 a provision was created for that purpose, which as at December 31, 2017 was PLN 570 thousand. The case is pending and its resolution date is difficult to predict.

AB Kauno Tiltai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, of which a subsidiary, AB Kauno Tiltai, is a member, for a total amount of PLN 64 591 497.18 (EUR 14 989 556.33). The share of Trakcja Group in the liabilities (if any) that may arise from these proceedings is 65%. In the course of the long-lasting process the court appointed an independent expert, who confirmed the opinion of the company that the aforementioned claim was unjustified. Therefore, the company's management believes that there is a substantial likelihood that the potential penalty will be significantly reduced. This allowed AB Kauno tiltai to reverse the provision of EUR 7 752 thousand which was created in 2015 for the contractual penalty accrued. The Group refrained from making any other disclosures related to this court case by invoking clause 92 of IAS 37.

5.7. Significant events after the balance sheet date

Znaczące umowy	RB
12.01.2018 r. Spółka jako Lider w Konsorcjum z AB Kauno Tiltai (Partner) podpisała z Miastem Gorzów Wielkopolski – Urząd Miasta oraz Przedsiębiorstwem Wodociągów i Kanalizacji Sp. z o.o. z siedzibą w Gorzowie umowę na wykonanie robót budowlanych wchodzących w zakres kontraktu na zadaniu pn. „System zrównoważonego transportu miejskiego w Gorzowie Wielkopolskim" w zakresie transportu miejskiego w tym: przebudowę torowisk tramwajowych, budowę peronów tramwajowych i dróg – w zakresie określonym kontraktem.	2/2018

Zmiany w składzie Zarządu Spółki	RB
09.03.2018 r. Jarosław Tomaszewski złożył oświadczenie o rezygnacji z funkcji Prezesa Zarządu i Członka Zarządu Spółki. Rezygnacja została złożona ze skutkiem na dzień 30 czerwca 2018 r.	3/2018

Pozostałe	RB
12.01.2018 r. Spółka przekazała do publicznej wiadomości terminy publikacji raportów okresowych w 2018 r.	1/2018

5.8. Transactions with related entities

All transactions of the Parent Company or its subsidiaries with the related parties were made at arm's length.

Information about the transactions with related parties is detailed in Note 57 to the Consolidated Financial Statements of Trakcja Group for 2017.

5.9. Remuneration of the Management Board members and Supervisory Board members

Remuneration and other benefits for the Parent Company's Management Board members in 2017 are presented in the table below.

Management Board of the Parent Company		Parent company				Subsidiaries			
		Remunaration	Awards	Other benefits	Total	Remunaration	Awards	Other benefits	Total
Jarosław Tomaszewski	President of Management Board	840	433	17	**1 290**	250		-	**250**
Paweł Nogalski	Vice-President of the ManagementBoard	600	189	43	**832**	-	-	-	**-**
Marek Kacprzak	Vice-President of the ManagementBoard	600	195	45	**840**	-	-	-	**-**
Sobczyk Maciej	Vice-President of the ManagementBoard since 14.09.2017	179	-	-	**179**	-	-	-	**-**
Rusevicius Aldas	Vice-President of the ManagementBoard since 1.12.2017	10	-	-	**10**	357	490	-	**847**
Total		**2 229**	**817**	**105**	**3 151**	**607**	**490**	**-**	**1 097**

The amount of PLN 3 151 thousand was recognised in the costs of the Parent Company and the remaining amount, i.e. PLN 1097 thousand, was recognised in the costs of its subsidiaries.

Remuneration and other benefits of the Parent Company's Supervisory Board members in 2017 are presented in the table below.

Supervisory Board of the Parent Company	Parent Company				Subsidiaries			
	Remunaration	Awards	Other benefits	Total	Remunaration	Awards	Other benefits	Total
Dominik Radziwiłł	240	-	-	**240**	-	-	-	-
Michał Hulbój	132	-	-	**132**	-	-	-	**-**
Wojciech Napiórkowski	132	-	-	**132**	-	-	-	**-**
Łukasz Rozdeiczer-Kryszkowski	105	-	-	**105**	-	-	-	**-**
Miquel Llevat Vallespinosa	132	-	-	**132**	250	-	-	**250**
Jorge Miarnau Monserrat	96	-	-	**96**	-	-	-	**-**
Fernando Perea Samarra	132	-	-	**132**	-	-	-	**-**
Total	**969**	**-**	**-**	**969**	**250**	**-**	**-**	**250**

5.10. Agreements concluded between the Parent Company and managers

The Parent Company and the Management Board members concluded employment contracts which provide for:

- compensation equal to 12 times a monthly gross salary in Trakcja Group received by the employee in the last month preceding the termination of the employment relationship, payable in four equal instalments;

or

- compensation equal to 6 times a monthly gross basic salary in Trakcja Group received by the employee for the last month preceding the termination of the employment relationship, payable in three equal instalments;

or

- compensation equal to 6 times a monthly gross basic salary in the Company received by the employee for the last month preceding the termination of the employment relationship, payable in three equal instalments.

Trakcja PRKiI and the Management Board members concluded non-competition agreements which during one year following the termination of the employment relationship provide for compensation:

- equal to 12 times a 100 % of the employee's monthly basic salary to which they are entitled under an employment contract in the course of the last year of being employed at the company, payable in arrears in equal monthly instalments.

or

- equal to 12 times a 100 % of the employee's monthly average salary to which they are entitled under an employment contract in the course of the last year of being employed at the company, payable in arrears in equal monthly instalments.

5.11. Important achievements in the area of research and development

Operating on the market characterised by an insignificant number of new solutions, the Parent Company is one of the leaders when it comes to the introduction of innovative solutions. The Parent Company has been operating on the market for energy storage facilities since 2016, and for the modular system of dynamic control for the traction substation loads, including potential connection points it was awarded during the 12th International Rail Fairs TRAKO 2017:

- SEP President’s Medal in the Competition for the SEP President's Medal,

- An award in the power supply and energy infrastructure category in the Competition of the Chamber of Commerce (Urban Transport) for the Professor Jan Podoski prize; an award in the power supply and energy infrastructure category.

In addition, for TRAKCJA-SAT HUSAR SIP (dynamic information system for travellers and safety system for passengers) the Parent Company was awarded a prize in the category of completed line and building project implemented in Poland in the Competition for the Józef Nowkuński, Eng. prize.

5.12. Information on the entity acting as the statutory auditor

Pursuant to a resolution adopted by the Supervisory Board of Trakcja Group, the entity authorised to audit financial statements of the Group and the Parent Company is Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (acting under the business name of Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. K. until March 18, 2018) with its registered office in Warsaw at Al. Jana Pawła II 22.

On July 31, 2017 the Parent Company and Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (acting under the business name of Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. K. until March 18, 2018) entered into an agreement for:

- the examination of the separate and consolidated half-yearly financial statements as at June 30, 2017 in accordance with the International Accounting Standards,
- the audit of the separate and consolidated annual financial statements as at December 31, 2017 in accordance with the International Accounting Standards.

The agreement is concluded for the period of completion of its subject.

Remuneration for the audit of selected companies within Trakcja Group is paid under separate agreements concluded between the entity authorised to audit financial statements and each of the selected Group members.

Remuneration of the statutory auditor for the services rendered for the Group is presented in the table below.

	Year ended	
	31.12.2017 Audited	**31.12.2016 Audited**
On account of agreement for financial statement audit	236	194
On account of agreement for financial statement review	76	72
On account of other agreements	41	5
Total	**353**	**271**

The chief statutory auditor and the audit firm stated that in 2017 they rendered for the entities within the Group the following services other than those of auditing financial statements:

- assurance services for the Company’s Integrated Annual Report for 2016, which involved the assessment of the quality and integrity of the data collected and of its compliance with the International Reporting Guidelines and the Global Reporting Initiative.

- review of the Respect Index questionnaire.

6. CORPORATE GOVERNANCE REPORT

6.1. Indication of the extent to which the Issuer departed from the corporate governance principles provided in the document entitled "Good Practices of Companies Listed on the WSE 2016" which are, pursuant to resolution no. 1309/2015, applicable from 1 January 2016, indication of such rules and explanation of the reasons of such a withdrawal

The Company undertook to comply with the recommendations and corporate governance principles specified in the document entitled "Good Practices of Companies Listed on the WSE 2016", except for the following:

1. Recommendations and principles provided in Part I of Good Practices:

A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:

I.Z.1.7. information materials published by the company concerning the company's strategy and its financial performance.

Company comments: The Company does not publish any strategy, because the situation on the markets, on which it operates, is so dynamic that the strategy would constantly be out of date.

I.Z.1.10. financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation.

Company comments: The Company does not publish any financial projections. Therefore this principle is not applicable.

I.Z.1.11. information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule.

Company comments: The Company does not apply the aforementioned principle, because it complies with the relevant regulations on the appointment of auditors set forth in the Act on Statutory Auditors and their Self-Regulatory Body, Audit Firms and Public Supervision of May 11, 2017.

I.Z.1.15. information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website.

Company comments: The Company informs that it did not draw up any official document that contained a description of the Company's diversity policy applicable to the Company's governing bodies and key managers, which would include such elements of the diversity policy as gender, education, age or professional experience. Despite having no official policy in that respect, Trakcja endeavours to comply with the diversity principles, which is reflected in the share of women employed as white-collar employees and the share of women employed as managers. The Company follows the diversity principles any time it has an opportunity to do so. This is reflected in the composition of the Supervisory Board. The persons appointed satisfy the requirements of versatility and diversity, in particular, as far as their education, age and professional experience are concerned. Decisive aspects are primarily high qualifications and expertise ensuring their suitability to perform certain functions.

The Company seeks to apply the principles of diversity to the Company's governing bodies and key managers, but due to a very stable composition of the Company's Management Board they play a limited role in that area.

I.Z.1.16. information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting.

Company comments: Due to its shareholdership, the Company does not stream any audio or video from general meetings.

I.Z.1.20. An audio or video recording of a general meeting.

Company comments: Due to its shareholdership, the Company does not stream any audio or video from general meetings and does not make it available on its website.

2. Recommendations and principles provided in Part II of Good Practices:

II.Z.1. The internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website.

Company comments: At the moment the Company does not apply to this principle, but the division of responsibilities for individual areas of the Company's activities among the Management Board members is ready and will be made available on the Company's website after its entry into force.

II.Z.7. Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.

Company comments: The Company applied to this principle; however, the committees of the Supervisory Board consist of independent members of the Supervisory Board, as provided for by the provisions of Annex I to the Commission Recommendation referred to in principle II.Z.4. The independent members form the majority in the Audit Committee, and at least one independent member of the Supervisory Board is a member of the Remunerations Committee.

3. Recommendations and principles provided in Part IV of Good Practices:

IV.R.1. Companies should strive to hold an ordinary general meeting as soon as possible after the publication of an annual report and set the date in keeping with the applicable legislation.

Company comments: In accordance with the standard practice adopted by the Company, ordinary general meetings are held usually in May or June in keeping with the deadline set out that purpose in Article 395 § 1 of the Commercial Companies Code.

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through: 1) real-life broadcast of the general meeting;

2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;

3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

Company comments: Due to the Company's shareholdership and the lack of the required technical infrastructure, the Company does not broadcast the general meetings and does not enable the real-time bilateral communication using electronic communication means.

IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

Company comments: The aforementioned recommendation does not apply to the Company, because the shares issued by the Company are only traded on the Warsaw Stock Exchange.

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

Company comments: Due to the structure of shareholders, the Company does not stream any real-time audio or video from general meetings.

4. Recommendations and principles provided in Part V of Good Practices:

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

Company comments: Currently the Company does not apply this principle, but it is preparing internal regulations concerning the criteria and circumstances, in which a conflict of interests may occur in the Company and also the procedure for resolving conflicts of interest when they occur or for preventing their occurrence.

5. Recommendations and principles provided in Part VI of Good Practices:

VI.R.1. The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

Company comments: The Company does not apply to this recommendation, because it developed its own incentive scheme for the Company's Management Board members and it is in the course of preparing an incentive scheme for key managers.

VI.R.2. The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and performance, taking into account solutions necessary to avoid discrimination on whatever grounds.

Company comments: The Company does not apply to this recommendation, because it developed its own incentive scheme for the Company's Management Board members and it is in the course of preparing an incentive scheme for key managers.

VI.R.3. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

Company comments: The Company applies principle II.Z.7 to the operations of the remuneration committee, but only one member of the Company's remuneration committee which consists of three members is an independent member of the supervisory board, thus independent members do not form the majority of its members.

VI.Z.1. Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

Company comments: The Company does not apply to this principle, because it developed its own incentive scheme for the Company's Management Board members and it is in the course of preparing an incentive scheme for key managers.

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

Company comments: The Company does not apply to this principle, because it developed its own incentive scheme for the Company's Management Board members and it is in the course of preparing an incentive scheme for key managers.

VI.Z.4. In this activity report, the company should report on the remuneration policy including at least the following: 1) general information about the company's remuneration system; 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group; 3) information about non-financial remuneration components due to each management board member and key manager; 4) significant amendments of the remuneration policy in the last financial year or information about their absence; 5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

Company comments: The Company does not report on the remuneration policy in its activity report, but preparations are being made so that in the future such a report forms part of the activity report.

6.2. Description of the manner of operation of the General Meeting of Shareholders, its basic rights, description of shareholder's rights and the manner of exercising them

The Company's General Meeting operates on the basis of provisions of the Commercial Companies Code, the Company's Articles of Association and the Regulations of the General Meeting. The General Meeting is convened through announcements made on the Company's website and in the manner specified for publication of current information according to the regulations on the public offering and conditions for introducing financial instruments to the organised trading and on public companies. Unless the provisions of the Commercial Companies Code or the Articles of Association of the Company provide otherwise, the GM resolutions are adopted by an absolute majority of the votes cast; however, resolutions on the subject of:

1) liquidation of the Company;

2) increase in the Company's share capital, redemption of the Company's shares and decrease in the Company's share capital;

3) issue of convertible bonds or other securities conferring the right to vote;

4) options conferring the right to acquire shares or other securities, and their terms;

5) deprivation of shareholders of pre-emptive rights to acquire newly issued shares;

6) disposal of business or its organised part;

7) recalling or suspension of the Management Board members or the Supervisory Board members;

8) merger of the Company with other company, split and transformation of the Company,

9) restoration of the certificated form of shares (rematerialisation of shares) of the Company;

10) amendments to the Articles of Association;

must be adopted by a 2/3 (two thirds) majority of the votes cast, when required by law. The General Meeting appoints the Company's Supervisory Board members, subject to the relevant provisions of the Company's Articles of Association. In addition to the aforementioned issues, the GM resolutions must be adopted in matters specified in the Commercial Companies Code, especially in the subject of examination and approval of the Management Board's report on the activities of the Company and on the activities of the capital group and the financial statements of the Company and of the capital group for the previous financial year, discharge of members of the Company's corporate bodies on the performance of their duties, profit distribution and loss coverage, sale or lease the business or its organised part and establishment of a limited right in rem, issue of senior bonds, establishment and liquidation of reserve capital; in case of the Company's liquidation, the GM appoints liquidators and specifies the procedure. The Management Board submits drafts of the GM resolutions to the Supervisory Board for its prior opinion. Shareholders may participate in the GM and exercise their voting rights in person or by proxies. The Company's Management Board members and Supervisory Board members participate in the GM. If the GM has any financial issues in its agenda, a statutory auditor should be present. Media representatives may participate in the GM, unless the subject matter of the meeting indicates that their presence might cause damage to the Company. The application for the presence of media representatives is submitted for voting by the Chairman of the GM immediately after the attendance list is signed.

The rights of Company's shareholders, including shareholders holding non-controlling interests, are exercised to the extent and in the manner compliant with provisions of the Commercial Companies Code.

6.3. Composition and operating principles of the Company's management and supervisory bodies and their committees

6.3.1. Management Board

As at the publication of this report, the Company's Management Board was as follows:

- Jarosław Tomaszewski – President of the Management Board;
- Marek Kacprzak – Vice-President of the Management Board;
- Paweł Nogalski – Vice-President of the Management Board;
- Maciej Sobczyk – Vice-President of the Management Board;

- Aldas Rusevičius – Vice-President of the Management Board.

In the course of the last financial year, the Company's Management Board composition changed as follows:

- On September 14, 2017 Mr. Maciej Sobczyk was appointed as the Vice-President of the Management Board;
- On November 30, 2017 Mr. Aldas Rusevičius was appointed as the Vice-President of the Management Board.

After the balance sheet date, i.e. on March 9, 2018 the Company was notified that Jarosław Tomaszewski resigned from the position held on the Company's Management Board. The resignation was submitted with effect from June 30, 2018.

The Company's Management Board operates on the basis of provisions of the Commercial Companies Code, the Company's Articles of Association and the Regulations of the Management Board. Pursuant to the Company's Articles of Association, the Management Board consists of 1 to 10 members appointed and recalled by the Supervisory Board, except for in the event when due to: (i) changes in para. 13.1 and 13.4 of the Articles of Association, (ii) changes in the relevant provisions of law, (iii) appointment of the Supervisory Board in keeping with Article 385 § 5 and (or) 6 of the Commercial Companies Code, the key shareholder (COMSA) is not able to appoint such a number of the Supervisory Board members as would form the majority of its members, COMSA shall have the right to appoint and recall the Management Board members in the number corresponding to 50% of all the Management Board members (rounded down to the nearest integral number) plus one Management Board member. If the number of Supervisory Board members appointed by COMSA ceases to form the majority of the Supervisory Board members, a resolution recalling or suspending a member or members of the Management Board appointed by COMSA is adopted by the General Meeting by a 2/3 of the votes cast.

The Management Board members are appointed for a 3-year joint term of office. The Supervisory Board (in cooperation with the Supervisory Board's Remuneration Committee) sets and changes remunerations and determines other terms and conditions of employment for the Management Board members. Pursuant to the Articles of Association, the Management Board manages the Company's affairs and represents the Company in external relationships. The Management Board has the authority to decide on matters which have not been reserved for competences of the General Meeting or the Supervisory Board. Resolutions of the Management Board are adopted by an absolute majority of votes of the Management Board members present at the meeting or participating in voting. If there is no majority, the vote of the President of the Management Board shall prevail. Two Management Board members acting jointly or one Management Board member together with the authorised signatory [prokurent] are authorised to make representations and to sign documents on behalf of the Company. A proxy is authorised, pursuant to a resolution adopted by the Management Board, to take certain actions on behalf of the Company (to the extent permitted by the authorisation granted).

6.3.2. Authorised signatories

The Company's authorised signatories included:

- Elżbieta Okuła;
- Jan Sęktas;
- Radosław Zając;

In the last financial year, on March 20, 2017 the Management Board members appointed Radosław Zając as an authorised signatory.

The aforementioned authorised signatories make representations on behalf of the Company, acting jointly with any of the Management Board members or any other authorised signatory.

The authorised signatories act on the basis of provisions of the Civil Code, Commercial Companies Code, the Company's Articles of Association and the Company's internal regulations.

6.3.3. Supervisory Board

The Company's Supervisory Board consists of:

- Dominik Radziwiłł – Chairman of the Supervisory Board;

- Jorge Miarnau Montserrat – Chairman Deputy of the Supervisory Board;
- Miquel Llevat Vallespinosa – Member of the Supervisory Board;
- Wojciech Napiórkowski – Member of the Supervisory Board;
- Fernando Perea Samarra – Member of the Supervisory Board;
- Michał Hulbój – Member of the Supervisory Board;
- Łukasz Rozdeiczer-Kryszkowski – Member of the Supervisory Board.

During the financial year concerned there were no changes to the Supervisory Board's composition.

After the balance sheet date there have been no changes made to the Supervisory Board's composition.

The Company's Supervisory Board operates on the basis of provisions of the Commercial Companies Code, the Company's Articles of Association and the Regulations of the Supervisory Board. Currently, the Supervisory Board consists of 7 members. The Supervisory Board comprises its Chairman, two Chairman Deputies and other members. The term of the Supervisory Board is three years.

The Supervisory Board members are appointed and recalled by the General Meeting, where the key shareholder (COMSA S.A.) is authorised to appoint and recall four Supervisory Board members by way of submitting a written statement in that respect to the Company. Where the number of the Supervisory Board members is higher or lower than seven due to changes in para. 13.1 of the Articles of Association or relevant provisions of law, COMSA shall have the right to appoint and recall the Supervisory Board members in the number corresponding to 50% of all the Supervisory Board members (rounded down to the nearest integral number) plus one Supervisory Board member.

One of the Supervisory Board members appointed by the General Meeting shall meet the following requirements of independence:

1) not be a member of the Management Board of the Company or any entity related thereto and not to hold such a position in the last five years;
2) not be an employee of the Company or any entity related thereto and not to hold such a position in the last five years;
3) not to receive, now or in the future, any significant additional remuneration from the Company or any entity related thereto, except for remuneration received as the Supervisory Board member;
4) not to represent, in any way whatsoever, the majority shareholder or any other shareholder holding at least 5% of votes at the General Meeting;
5) not to have, currently or during the past year, any significant business relationship with the Company or any entity related thereto, both directly or as a partner, shareholder, director or a key employee of the entity that has such a relationship;
6) not to be, currently or during the last three years a partner or employee of the current or former external auditor of the Company or any entity related thereto;
7) not to be a managing director or an executive director in any other company in which the Company's Management Board member is a non-executive director or a supervisory director, and not to have any other significant relationship with the Company's Management Board members through the performance of duties in other companies or entities;
8) not to be a member of the Supervisory Board for longer than three terms of office;
9) Not to be a family member of an executive director or a managing director or any of the persons referred to in pt. 1) to 8).

The Supervisory Board whose members do not include an independent member of the Supervisory Board, regardless of the reason, is capable to adopt important resolutions.

If COMSA S.A. Fails to appoint a member (members) of the Supervisory Board within 21 days from the expiry of the term of office of a member (members) of the Supervisory Board appointed by COMSA S.A., such a member (members) should be appointed and recalled by the General Meeting until COMSA exercises its right to do so. Once COMSA S.A. has exercised its right to appoint a member of the Supervisory Board, the term of office of the member (members) of the Supervisory Board appointed by the General Meeting in keeping with these provisions automatically expires which has no effect on the term of office of the Supervisory Board.

The Supervisory Board which due to the expiry of the term of office of a member (members) of the Supervisory Board (for reasons other than their having been recalled) consists of less the seven but at least five members of the Supervisory Board and has capacity of adopting important resolutions until the missing members of the Management Board have been appointed.

If the Supervisory Board is appointed in keeping with the provisions of Article 385 § 5 or 6 of the Commercial Companies Code, the Chairman is elected by COMSA S.A. among the candidates appointed in accordance with the provisions of Article 385 § 5 or 6 of the Commercial Companies Code.

The members of the Supervisory Board are appointed for the period of a joint term of office. The Supervisory Board or its individual members appointed by the General Meeting may be recalled by a resolution adopted by the General Meeting before the termination of the Supervisory Board's term of office. If a member of the Supervisory Board is recalled during the term of office and another person is appointed to fill that position, the term of office of the newly appointed person ends upon the end of the entire Supervisory Board's term of office. The same also applies when the entire Supervisory Board is recalled during its term of office and new Supervisory Board is appointed and also when new members are additionally appointed to the Supervisory Board during its term of office. The Chairman and the Chairman Deputies are elected by the Supervisory Board from among its members.

The works of the Supervisory Board are managed by its Chairman and in the case of his/her absence by the Chairman Deputy. The members of the Supervisory Board can be reappointed for another term of office. The Supervisory Board members act in a personal capacity. The Supervisory Board may also adopt resolutions in writing or by means of direct communication over distance, without holding a meeting. The Supervisory Board's meetings are convened at least four times a year by its Chairman, who also chairs the meetings. In the absence of the Chairman, meetings are chaired by one of the Chairman Deputies. The Chairman convenes the Supervisory Board's meetings also at a written request of the Company's Management Board or any of the Supervisory Board members. The Chairman appoints the Secretary of the Supervisory Board. A Supervisory Board's resolution may be adopted at a meeting, provided that all the Supervisory Board members have been invited in writing to the meeting (such invitations should be delivered to the Supervisory Board members at least seven days before the meeting) and that at least half of them are present at the meeting, including the Chairman and at least one of the Chairman Deputies. The Supervisory Board's meeting may be valid also without being officially convened, if all the Supervisory Board members are present at the meeting and none of them objects to the holding of such a meeting or any issue included in the agenda. Subject to Article 388 § 4 of the Commercial Companies Code, the Supervisory Board may adopt resolutions in writing or by means of direct communication over distance. In such an event a draft of the resolution should be presented to all members of the Supervisory Board by its Chairman, and in his or her absence by one of the Chairman Deputies.

The Supervisory Board has the authority to continuously supervise the operations of the Company. The Supervisory Board's resolutions are required in matters reserved for the Supervisory Board in the Commercial Companies Code and in Article 16 and Article 16A of the Company's Articles of Association. The Supervisory Board appoints the Company's certified auditor. Resolutions of the Supervisory Board are adopted by a simple majority of votes. If there is no majority the vote of the Chairman of the Supervisory Board prevails.

On July 25, 2013 the Company's Supervisory Board appointed from among its members the Audit Committee which currently consists of the following members: Wojciech Napiórkowski (Chairman of the Audit Committee and independent member of a supervisory Board), Fernando Perea Samarra (Audit Committee member) and Łukasz Rozdeiczer-Kryszkowski (Audit Committee member and independent member of a supervisory board).

The Supervisory Board also appointed from among its member the Remuneration Committee as an advisory body for determining the amounts and principles of remuneration for the Company's Management Board members. The Remuneration Committee members are as follows: Dominik Radziwiłł (Chairman), Michał Hulbój (member and independent member of a supervisory board) and Miquel Llevat Vallespinosa (member).

Detailed principles of the functioning of the Supervisory Board are specified in the Regulations of the Supervisory Board adopted by the General Meeting.

6.4. Description of basic features of internal control and risk management systems with reference to the process of drawing up financial statements

The Issuer prepares its financial statements in accordance with the applicable regulations, and in particular with the International Accounting Standards, International Financial Reporting Standards and any interpretations related thereto and published in the form of regulations by the European Commission, hereinafter referred to as the “IAS”, referred to in Article 2, para. 3 of the Accounting Act of 29 September 1994 (as amended). Any issues not regulated in the IAS are governed by the provisions of the Accounting Act and the executive regulations issued on its basis. The Company’s separate internal audit unit carries out activities related to internal control.

In practice, the financial statements and reports are prepared by the qualified employees of the financial division under the supervision of the Vice President of the Management Board – Financial Director.

Since 2015 Trakcja PRKiI has kept its accounting records using Microsoft Dynamics AX. The structure of the system ensures a transparent allocation of competences, consistent records of operations in the ledgers and cross-validation between individual modules.

The consolidated financial statements are drawn up using uniform consolidation packages prepared in an electronic form by the respective Capital Group companies. Data is consolidated by the Stock Exchange Reporting Department under the supervision of the Vice-President of the Management Board – Financial Director.

The Supervisory Board examines the separate and consolidated financial statements and appoints the Audit Committee as an advisory and consultancy body acting within the structure of the Supervisory Board. The key objective of the Audit Committee is to support the Supervisory Board in exercising financial supervision and to provide the Supervisory Board with reliable information and opinions allowing for the appropriate decisions on financial reporting, internal control and risk management to be made efficiently, and also to ensure that the entity authorised to audit financial statements is independent and objective.

In accordance with the applicable regulations, Trakcja PRKiI has its annual financial statements audited and its semi-yearly financial statements reviewed by an independent statutory auditor. A statutory auditor is appointed by the Company's Supervisory Board from among first-class audit firms, based on the Audit Committee recommendations. The statutory auditor assesses independently the reliability and integrity of separate and consolidated financial statements and verifies whether the internal control and risk management system is effective.

6.5. Indication of the set of corporate governance principles applicable to the Issuer and the place in which it is publicly available

In 2016 Trakcja PRKiI complied with the set of corporate governance principles specified in the document entitled “Good Practices of Companies Listed on the WSE 2016”, adopted by resolution no. 1309/2015 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. on December 17, 2015.

This document is available at the registered office of the Warsaw Stock Exchange and on its website devoted to the corporate governance issues http://corp-gov.gpw.pl, and also on the Company’s website in the “Investor Relations/ Corporate governance” tab.

6.6. Specification of shareholders holding directly or indirectly significant shareholdings

To the best knowledge of the Parent Company's Management Board and in accordance with the notifications referred to in Article 69 referred to in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, shareholders that hold directly or through subsidiaries at least 5% of the total number of votes at the Company’s General Meeting of Shareholders as at the submission hereof were as follows:

Shareholders	Number of shares	% In the share capital	Number of votes	% In votes at GSM
COMSA S.A.*	16 156 193	31,43%	16 156 193	31,43%
Nationale-Nederlanden OFE	5 111 908	9,95%	5 111 908	9,95%
OFE PZU "Złota Jesień"	4 349 650	8,46%	4 349 650	8,46%
Other shareholders*	25 781 797	50,16%	25 781 797	50,16%
Total	**51 399 548**	**100,00%**	**51 399 548**	**100,00%**

*As a result of the acquisition by COMSA S.A. of shares in the Parent Company, notification of which was provided in Current Report No. 19/2017 and Current Report No. 20/2017, the number of shares held by COMSA S.A. increased in total by 313 000 shares. As neither Nationale-Nederlanden OFE nor OFE PZU Złota Jesień announced that they had sold their shares in the Parent Company, it was assumed that the shares were sold by other shareholders.

6.7. Specification of holders of any securities granting special controlling rights and description of such rights

All shares in the Company are ordinary shares and give no special rights.

6.8. Specification of any restrictions on voting rights

Resolutions of the General Meeting are adopted by an absolute majority of the votes cast; however, resolutions on the subject of:

1) liquidation of the Company;
2) increase in the Company's share capital, redemption of the Company's shares and decrease in the Company's share capital;
3) issue of convertible bonds or other securities conferring the right to vote;
4) options conferring the right to acquire shares or other securities, and their terms;
5) deprivation of shareholders of pre-emptive rights to acquire newly issued shares;
6) disposal of business or its organised part;
7) recalling or suspension of the Management Board members or the Supervisory Board members;
8) merger of the Company with other company, split and transformation of the Company,
9) restoration of the certificated form of shares (rematerialisation of shares) of the Company;
10) amendments to the Articles of Association,

must be adopted by a 2/3 (two thirds) majority of the votes cast, when required by law. Apart from the above restrictions and those following from the commonly applicable regulations, the Company's internal acts do not introduce any additional restrictions.

6.9. Specification of any restrictions on the transfer of the right of ownership to securities issued by Trakcja PRKiI

Apart from the restrictions following from the commonly applicable regulations, the Company's internal acts do not introduce any additional restrictions.

6.10. Description of rules for appointing and recalling managers and of their competences, in particular the right to make decisions on issuing or redeeming shares

Pursuant to the Company's Articles of Association, the Company's Management Board is appointed and recalled by a resolution adopted by the Supervisory Board, except for in the event when due to: (i) changes in para. 13.1 and 13.4 of the Articles of Association, (ii) changes in the relevant provisions of law, (iii) appointment of the Supervisory Board in keeping with Article 385 § 5 and (or) 6 of the Commercial Companies Code, the key shareholder (COMSA) is not able to appoint such a number of the Supervisory Board members as would form the majority of its members, COMSA shall have the right to appoint and recall the Management Board members in the number corresponding to 50% of all the Management Board members (rounded down to the nearest integral number) plus one Management Board member. If the number of Supervisory Board members appointed by COMSA ceases to form the majority of the Supervisory Board members, a resolution recalling or suspending a member or members of the Management Board appointed by COMSA is adopted by the General Meeting by a 2/3 of the votes cast. The Management Board members are appointed for a 3-year joint term of office. Pursuant to the Articles of Association, the Management Board manages the Company's affairs and represents the Company in external relationships. The Management Board has the authority to make decisions on any issues other than those reserved for the competences of the General Meeting of Shareholders or the Supervisory Board. Two Management Board members acting jointly or one Management Board member together with the authorised signatory [prokurent] are authorised to make representations and to sign on behalf of the Company. A proxy is authorised, pursuant to a resolution adopted by the Management Board, to take certain actions on behalf of the Company (to the extent permitted by the authorisation granted). The General Meeting is authorised to make decisions on issuing or redeeming shares (increasing or decreasing the share capital) by means of resolutions adopted by a 2/3 majority of the votes cast.

6.11. Description of rules for amending the Articles of Association of Trakcja PRKiI

Any amendments to the Company's Articles of Association are made in accordance with the rules set forth in the commonly applicable provisions of law.

6.12. Information on sponsoring policy

As a responsible member of business community, the Trakcja Group actively supports cultural and social initiatives of local communities, both in Poland and in other countries in which it carries out its business activities. The Group supports higher education, development of research projects carried out by research institutions, and also activities aimed at promoting new technologies in the transport infrastructure construction industry. The Group is also committed to projects with considerable promotion and image potential for its brand. In 2017 Trakcja Group spent PLN 311 thousand on activities in the area of sponsoring and corporate social responsibility.

Warsaw, 28 March 2018

Jarosław Tomaszewski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

MANAGEMENT BOARD'S STATEMENT

To the best of our knowledge, the consolidated financial statements of Trakcja Group for the period from January 1, 2017 to December 31, 2017 and the comparable data for the period from January 1, 2016 to December 31, 2016 have been drawn up in compliance with the accounting principles in force and reflect the Group's assets and financial condition as well as its financial performance in a true, reliable and clear manner. The report of the Management Board on the activities of Trakcja Group presents a true picture of the Group's development, achievements, risks, threats and condition.

We also state that the entity authorised to audit financial statements which examines the consolidated annual financial statements of Trakcja Group for a 12-month period ended December 31, 2017, namely Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., has been appointed in accordance with the provisions of law. The entity and statutory auditors conducting the audit fulfilled the conditions for expressing an unbiased and independent audit opinion in accordance with the applicable provisions of law and professional standards.

Jarosław Tomaszewski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Warsaw, March 28, 2018

This document is a translation
The Polish original should be referred to in matters of interpretation

TRAKCJA
CAPITAL GROUP

NON-FINANCIAL STATEMENT

FOR 2017

This document is a translation
The Polish original should be referred to in matters of interpretation

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Introduction

This statement (hereinafter referred to as the “Statement” or “Report”) has been drawn up in accordance with Article 49b of the Accounting Act of September 29, 1994, as amended, which implements the provisions of Directive 2014/95/UE of the European Parliament and of the Council 2013/34/UE as regards disclosure of non-financial and diversity information by certain large undertakings and groups. It includes non-financial information on Trakcja Group for the period from January 1, 2017 to December 31, 2017 and constitutes a separate part of the Report of the Management Board on the Activities of Trakcja Group in 2017. This Non-Financial Statement is the first report on non-financial information issued by Trakcja Group (hereinafter referred to as the Group). The Group has identified key non-financial performance indicators based on the G4 Sustainability Reporting Guidelines issued by the Global Reporting Initiative.

The data herein is collected, analysed and disclosed with due diligence. The contents hereof are defined based on the Parent’s Company CSR strategy adopted in 2016. The CSR strategy defines, on the basis of PN-ISO 26000, social responsibility which is understood as responsibility of an organisation for any impact exerted by its decisions and actions on society and the environment, through clear and ethical behaviour, which:

- ✓ contributes to sustainable development, including the health and welfare of society,
- ✓ takes into account the expectations of stakeholders,
- ✓ is compliant with the applicable provisions of law and consistent with international and national standards,
- ✓ is integrated with the operations of the organisation and practised in its relations.

In accordance with the Parent Company's CSR strategy, the following key non-financial areas have been identified:

1. Management of natural resources,
2. Operating practices,
3. Labour practices,
4. Customer relations,
5. Social commitment and development of local community.

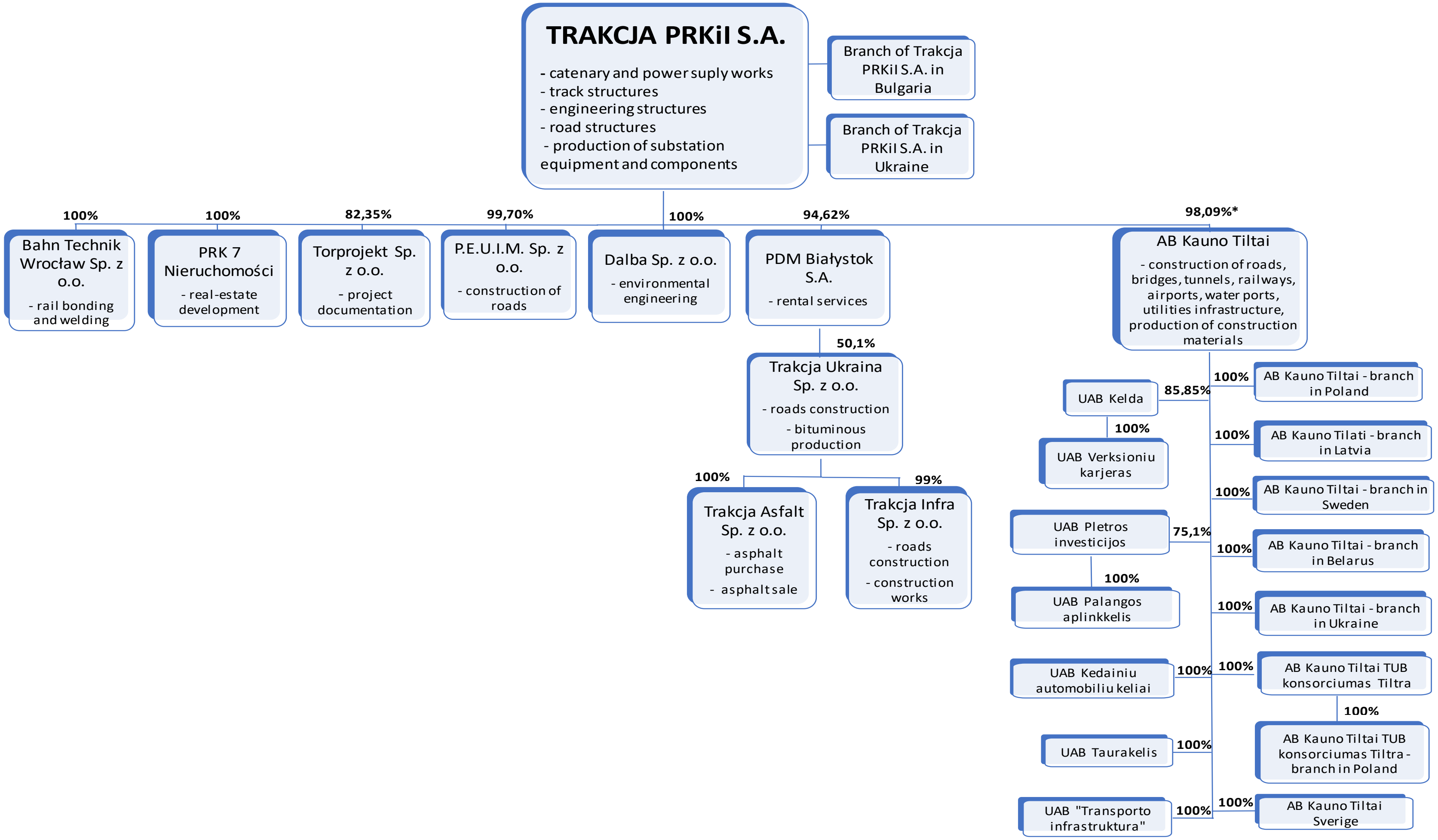
The CSR strategy was created by several key managers of the Parent Company, who are responsible, in particular, for strategy, stock exchange reporting, communication and human resources. It has been decided that essential aspects of the strategy should respond to the needs reported by stakeholders and create added value or universal benefits for a broad spectrum of beneficiaries both outside and within the organisation. Simultaneously, an attempt was made to ensure that all the issues which are significant for the Group be reported.

Trakcja Group (hereinafter referred to as the “Group” or “Trakcja Group”) is one of the leading entities on the Polish and Lithuanian rail, tram and road infrastructure construction market.

The headquarters of the Group’s Parent Company (Trakcja PRKiI S.A.) are located in Warsaw at ul. Złota 59. The ultimate parent company in Trakcja Group is COMSA S.A., a Spanish company which prepares the consolidated financial statements that include, among many, the data of Trakcja Group.

Structure of the Group

Trakcja PRKiI is the Parent Company of Trakcja Group. The Group's composition and structure as at December 31, 2017 is presented in the diagram below.



*) Trakcja PRKiI holds a total of 98.09% (96.84% directly and 1.25% indirectly) of the share capital of AB Kauno Tiltai. The indirect shareholding results from the acquisition of own shares by the subsidiary.

I. Key stakeholders and relationships with them

Being aware of the fact that the Group's impact on the environment in which many significant groups of its stakeholders operate is significant, the Group continuously endeavours to be in regular contact with all the groups and to communicate with them in an effective manner. The Group is open to all signals emanating from the environment, in particular, those aimed at identifying new stakeholders and finds it important to respond to them swiftly. The Group communicates with stakeholders on a cyclical and ongoing basis and reacts to any need reported in that respect. The appointed persons who know best the expectations of the groups of stakeholders are responsible for communicating with stakeholders.

Relationships between the Group and stakeholders are of a dynamic nature and varied intensity which depends, for example, on the events scheduled for a given year, market conditions or stages of contracts that are currently in progress. In order to maintain the best possible relations with its stakeholders, the Group focuses on dialogue and transparent communication.

Knowing social expectations, the Group is able to react to the needs of its environment faster and with more precision. The Group monitors its own perception on a current basis, which enables it to understand the expectations of its stakeholders and to swiftly take measures allowing it to differentiate itself from the competition.

By taking part in local projects, the Group remains sensitive to local needs and endeavours to satisfy them. This relates, in particular, to such measures as increasing the scope of works carried out or carrying out additional works in order to facilitate and improve the life standard of local communities, or supporting local initiatives.

A wide range of the Group's stakeholders includes:

- strategic shareholders,
- financial shareholders,
- capital market analysts,
- supervisory institutions and market regulators (for example, the WSE and the Polish Office of Rail Transportation),
- creditors and bondholders,
- key customers: PKP PLK, GDDKiA, PGE, Enea, Lithuanian Road Administration and the Vilnius City Office
- employees,
- consortium members,
- suppliers of goods and services,
- local authorities,
- other customers,
- public opinion,
- local communities,
- subcontractors.

II. Business model

GRI G4-4

The Group's activities focus on the comprehensive performance of works relating to a widely understood rail and road infrastructure with the use of modern machinery. The Group specialises in providing engineering and construction services in the following scope: design, construction and modernisation of rail and tram lines, rail and tram electrification system and power lines, as well as the construction of bridges, viaducts, piers, overpasses, tunnels, underpasses, retaining walls, roads and associated elements of rail and road infrastructure. In addition, Trakcja Group may perform general construction works, including the preparation of construction sites and the construction and modernisation of structures, as well as structural works and finishing works. The key part of the Group's activities consists in the construction of buildings both for rail infrastructure purposes (traction substation buildings, switch towers, railway crossing cabins, railway stations, train buildings and other) and for general purposes (residential and commercial). The services provided also include the development of power systems and remote control systems. For over seventy years, the Group members have been implementing complete power installations of medium and lately high voltage, both in new and in modernised and renovated rail power facilities.

The Group's goal is to continuously maintain a high level of services in the area of design, construction and manufacture of equipment. The Group wishes to achieve this goal by providing its customers with goods and services that meet their needs and comply with the applicable standards, and whose quality is high and price attractive.

All the Group's employees participate in this process, take full responsibility for the quality of their work and play an active part in boosting the Group's image in its customers' eyes.

It is especially important to the Group that:

- it renders services at the quality level agreed on with our customers,
- it ensures a quality level required for the construction and assembly works at all their stages, including the optimisation of individual construction processes through the detailed planning and selection of the option that is most beneficial, and also through diligence and the saving of time, materials and energy,
- it continuously and efficiently supervises the works carried out, to ensure not only that the standards are met, employees safe and the environment protected at our construction site, but also to keep the neighbourhood safe, minimise any adverse environmental impact and ensure that the facilities are free from failures and future users safe,
- it continuously increases the competences of our management through external and internal training, further education for employees and also effective use of the knowledge gained,
- it verifies and assesses providers of materials, services and subcontractors that begin cooperating with the Group in order to eliminate any risks associated with unreliability,
- it cooperates with subcontractors and suppliers which meet the Group's quality standards,
- it upgrades machinery in order to enhance the competitiveness of the Group's business,
- it prioritises proper communication with its customers and provides them with reliable information about all aspects of the works carried out, simultaneously ensuring that any information concerning the Group's cooperation with customers remains confidential.

Sales structure

In 2016 and 2017 the Group generated revenues primarily from rail and road contracts.

	2017		2016	
	value	share	value	share
Railway works	702 778	51,1%	737 043	53,4%
Road works	496 288	36,1%	507 997	36,8%
Bridge works	25 993	1,9%	23 285	1,7%
Tramway works	3 124	0,2%	5 133	0,4%
Energy works	30 370	2,2%	26 054	1,9%
Production	32 366	2,4%	40 717	2,9%
Other areas of activity	83 372	6,1%	40 944	3,0%
Total revenues from sales	**1 374 291**	**100%**	**1 381 173**	**100%**

Trakcja PRKiI S.A.

The Company's core activities are the organisation and carrying out of construction and assembly works in the scope of comprehensive modernisation of railway and tramway lines, railway and tramway electrification system, power lines and industrial facilities, as well as the construction of bridges, viaducts, piers, overpasses, tunnels, underpasses, retaining walls, roads and associated elements of railway and road infrastructure and also the manufacture of contact line and power line equipment. The Company operates in Poland and also has a branch in Bulgaria and a branch in Ukraine.

A wide spectrum of construction and assembly works and also the manufacture of contact line and power line equipment required internal standards to be developed such as the quality, environmental protection and safety procedures and detailed manuals. These standards are based on the following international standards:

- **ISO 9001** – quality management,
- **ISO 14001** – environmental protection management,
- **ISO 18001** – safety management,

and they collectively form the **Integrated Management System** which is assessed and certified on a regular basis by an independent certification body of TÜV SÜD Management Service GmbH with its registered office in Poznań.
Industrial manufacturing consists in the structure welding processes. Therefore, the Company is covered by the internal compliance assessment system which is required by law if any construction goods used in EU countries are manufactured. This system is certified by UDT CERT for compliance with **PN-EN ISO 3834-3:2007.**

The Company plays an important role in providing for adequate technical conditions for the rail traffic and modernisation and construction of rail lines in Poland. For nearly 10 years the Company has been one of the industry leaders, completing several dozen contracts a year. Approximately 20% of rail lines for Pendolino, including sections of such key routes as Warsaw-Gdynia, Warsaw-Katowice, Kraków-Rzeszów and Częstochowa-Wrocław were comprehensively modernised by Trakcja PRKiI. Currently, the Company is in the process of modernising next rail line sections. As far as the road industry is concerned, the operations of Trakcja PRKiI expand over nearly 40% of the land territory of Poland, mainly in the regions of Kujawy, Pomorze, Wielkopolska, Małopolska and Podlasie, where it modernises approximately 100 km of local and provincial roads a year. Energy-related contracts are currently performed in the central and southern part of Poland. Since 2001, the Company had been operating as an authorised rail transport operator that specialises in transporting goods. The Company has been awarded certificates that authorise it to use rail lines managed by PKP PLK S.A. As part of transport safety measures, the Company developed and implemented the SMS (Safety Management System).

The revision of the Company’s business model, which has been in progress for almost two years and is currently coming to an end, is based on five pillars:

- Strengthening the Company's position on existing markets,
- Further diversification of activities by entering new areas of construction industry (tram infrastructure market in 2017),
- Enhancing production capacity through the acquisition of specialist highly efficient equipment,
- Restructuring employment through the expansion of engineering and managerial potential for the purpose of being able to implement more contracts,
- Developing innovations focused on manufacturing new products.

These measures arise from the needs of stakeholders, the essence of which is the implementation of the national rail and road investment projects in combination with the absorption of EU funds.

AB Kauno Tiltai Group

AB Kauno tiltai Group constructs transport infrastructure. It has been operating for almost 70 years and specialises in constructing roads, rail lines, bridges, viaducts, airports, tunnels, energy and energy networks and civil engineering objects. The Group also renders services of equipment rental and sales asphalt.

Every year AB Kauno tiltai implements approximately 300 investment projects of different scale and difficulty, from simple and quick reconstruction works to the largest transport infrastructure construction works both in Lithuania and abroad. The company ensures the quality of its works thanks to the certified laboratory which forms its integral part and whose findings are accepted all around the EU.

The group employs over 1000 people, including 200 qualified transport infrastructure engineers. AB Kauno tiltai has branches in Latvia, Sweden, Belarus, Ukraine and Poland.

AB Kauno tiltai has been awarded certificates for its management systems, which are compatible with international standards in the area of quality (ISO 9001), occupational health and safety (ISO 14001), and also environmental protection (ISO 18001) for over 15 years. The company has also been awarded the Bureau Veritas certificate.

AB Kauno Tiltai Group meets the highest standards when carrying out its activities and completing its projects, as well as selecting its subcontractors, partners, consultants and suppliers. In order to make sure that the structures built are of good quality and durability, much attention is paid to materials used when implementing projects. AB Kauno Tiltai Group consistently endeavours to provide its employees with healthy, safe and satisfactory working environment, and in particular, with tools, regular qualification improvement seminars, foreign language courses and engineering courses.

Its key customers are state institutions, namely the Lithuanian Road Administration and AB Lietuvos geležinkeliai (Lithuanian Railways).

PEUiM Sp. z o.o.

Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o. PEUiM Sp. z o.o. with its registered office in Białystok operates in the road construction sector and its business activities are concentrated in the north-east of Poland. PEUiM specialises in the construction of roads and pavements and in the installation of signalling and safety devices to secure roads. The company also manufactures bituminous mass, concrete and other building materials.

From the beginning of its operations PEUiM Sp. z o.o. constructs and maintains roads. The company employs highly qualified workers, has modern equipment and its own road laboratory. Thanks to this it guarantees timely completion and high quality of works and manages the construction works in a very efficient manner.

Dalba Sp. z o.o.

Dalba Sp. z o.o. is a company with its registered office in Białystok, whose activities consist in the performance of engineering works, mainly, during the construction of sanitary infrastructure, roads and streets.

PDM Białystok S.A.

PDM Białystok S.A. is a company with its registered office in Białystok. It provides equipment, premises and tool rental services to external companies and supplies PEUiM with materials.

STALMAX Sp. z o.o.

Key activities of the Company are as follows:

- Specialist thermite welding of various types of rail, tram and other tracks;
- Regeneration of steel crossing surface;
- Regeneration of tram tracks and frogs;
- Provision of pre-stressed and glued insulation joints;
- Rail track tamping;
- Track welding.

PRK 7 Nieruchomości Sp. z o.o.

PRK 7 Nieruchomości Sp. z o.o. carries out real estate development activities and has a track record of several successful investment projects, which include, in particular, Lazurowe Osiedle residential project in Warsaw (stage I and II) and the project at ul. Oliwska in Warsaw, as well as the construction of three multi-family residential buildings in Warsaw at ul. Pełczyńskiego. Currently, the company is engaged in selling terraced houses located at ul. Oliwska in Warsaw.

Torprojekt Sp. z o.o.

The company specialises in providing design and consultancy services in the area of linear, building and general rail construction and in the related areas for institutional customers all over the world.

Cooperation with suppliers

GRI G4-12

Please find below described the policies adopted by the following Group members: Trakcja PRKiI S.A., AB Kauno Tiltai and PEUiM Sp. z o.o.

Parent Company

Over the year the Company cooperates with many different suppliers and subcontractors. The following materials are purchased for the implementation of contracts:

1. Track materials (rails, sleepers, switch sleepers, turnouts, rail buffer stops, geotextile, crushed stone, key aggregate, mixture, unsorted mix and other aggregates)
2. Energy materials (cables, lines, wires, luminaries, electricity poles, transformer stations, remote control cabinets)
3. Contact line materials (equipment, insulators, contact wires, copper wires)
4. Steel, metallurgical materials (steel constructions)
5. Construction materials.

In addition, the Company purchases: drainage systems and materials, concrete and stone elements, platform panels and walls, cement and other binders, construction wood.

The Company applies the following supplier selection methods:

- Procurement platform:
  - ✓ Auctions
  - ✓ Requests for proposal
- Framework agreement

Auction invitations and requests for proposal are sent only to the companies included in the list of qualified PKP PLK suppliers.

Supplier selection criteria:

- Price
- Timeliness of deliveries
- Guarantee period
- Payment date

Goods procurement forms:

- Order with a reference number, payment date, date and place of delivery and detailed list of the ordered goods.
- Supply agreement.

In 2016 the values and principles followed by the Company for the purpose of selecting suppliers and subcontractors were collected in the document entitled “Principles of Cooperation with Suppliers and Subcontractors by Trakcja PRKiI”. The document is available on the Company's website.

In 2017 supplies from none of the suppliers exceeded 10% of the materials and services purchased.

Safety requirements for subcontractors

The Company puts great emphasis on the occupational health and safety of subcontractors and service providers. All subcontractors and service providers receive training in the Company's internal OHS procedures and are obliged to comply with their provisions. They are also informed about any danger and rules for behaving at the construction site. Every employee of the Company's subcontractor or service provider, involved in modernisation or rail lines, must have a pass authorising them to perform work and access the premises of PKP PLK. The OHS requirements are detailed in the agreements made with subcontractors and service providers, which in addition to the requirements resulting from general OHS regulations include information about the consequences of a failure to comply with the provisions of the agreements and OHS regulations. The ongoing monitoring of compliance with the OHS regulations has resulted in good practices being developed among the subcontractors and service providers and in the perception of significance of the safety at work being changed.

AB Kauno Tiltai

Supplier selection methods:

1. Market (current contacts) research
2. Participation in specialist trade fairs
3. Internet searches
4. Acquisition of suppliers on their own initiative

Ordering forms

1. Purchase orders including payment dates, delivery dates and locations and detailed lists of the elements ordered
2. Purchase agreement.

The Company cooperates on an ongoing basis with many different suppliers providing it with materials of the highest quality, necessary for the implementation of investment projects, such as:

- Gravel, sand and mixtures
- Metal structures
- Fuel
- Electrical devices and power supply elements
- Concrete structures
- Asphalt
- Gas

PEUiM Sp. z o.o.

Main groups of the construction materials purchased:

1. Materials subject to by the Factory Production Control procedure:

- Road asphalt and binders
- Glacial aggregates
- Aggregates from rocks
- Limestone flour

2. Other construction materials:

- Stone elements
- Concrete elements
- Materials for drainage and geosynthetics
- Cement and other binders.

In addition, the company purchases low-value inventory, OHS products and other materials necessary for the implementation of contracts.

Supplier selection and evaluation methods

Suppliers are selected using a percentage scoring. This enables to classify a supplier to a category of qualified suppliers or backup suppliers or to exclude a supplier from the classification.

III. Management

Risk management

Risk related to the construction sector

Construction is a higher-risk industry. This is explained mainly by two factors: unforeseeable long-term weather conditions and underground construction hazards (undocumented technical infrastructure facilities, water tanks, sites of archaeological interest, etc.).

Risks and risk management system at the Parent Company

The Parent Company has developed a risk management system that covers the whole company (macro risks) and follows a methodology which includes:

- definitions,
- risk management objectives,
- identification, description, measurement and assessment of risks,
- risk prioritisation,
- reactions to risk (control mechanisms),
- risk monitoring,
- reporting and improving review.

The management system is addressed to all the managers and key employees. In order to strengthen the commitment to the risk management system, we have introduced an attractive incentive system for selected groups of employees interrelated with their professional achievements.

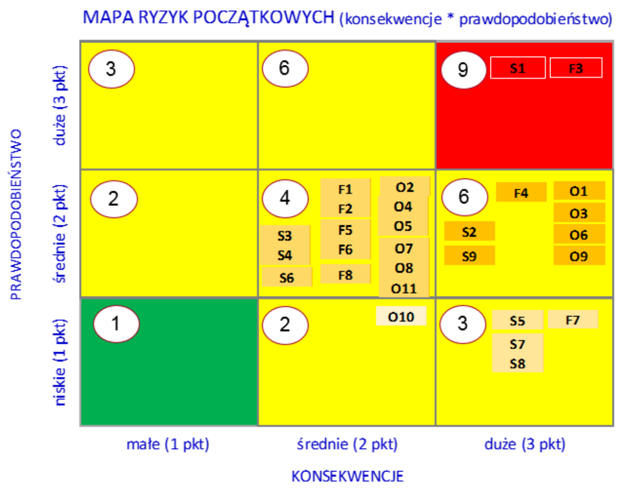
Identification and assessment of macro risks

Having analysed several various sources of information, the Parent Company identified 28 significant macro risks (affecting the whole company) and divided them into strategic, financial and operational risks. The macro risks identified may include such risks as a significant decrease in the rail and road construction market size, a lack of capacities to implement the Group's strategy; insufficient capital expenditure on equipment necessary for the completion of construction contracts, non-optimum use of resources, a decrease in ability to acquire new construction contracts, and a failure to obtain administrative decisions necessary for the completion of construction contracts by the required deadlines. Each risk was assigned one person responsible (“risk owner”).

Next, the macro risks were assessed according to a scale of joint criteria (probability and consequence), which resulted in an initial risk level being established. After that, each risk was assigned control mechanisms (i.e. repetitive ways of dealing with risks) used by the Company and their impact on the initial risk was analysed. This way, the residue risk was assessed, which was to a large extent independent of the Parent Company’s activities.

The aforementioned information was summarised in the synthesis report entitled “Risk Profile” which was drawn up and implemented in the Parent Company and which presents all the aforementioned data comprised on a single sheet.

Another element of the macro risk management system is the Risk Matrix which includes individual risks. It provides a quick view of risks divided into critical, marginal and negligible ones.



S1 - S9 – strategic risks
F1 - F8 – financial risks
O1 - O11 – operational risks

PL	EN
MAPA RYZYK POCZĄTKOWYCH (konsekwencje * prawdopodobieństwo)	INITIAL RISK MATRIX (consequences * probabilities)
PRAWDOPODOBIEŃSTWO	PROBABILITY
KONSEKWENCJE	CONSEQUENCES
Niskie (1 pkt)	Low (1 pt.)
Średnie (2 pkt)	Moderate (2 pt.)
Duże (3 pkt)	High (3 pt.)

How will the macro risk management process be organised in the Parent Entity?

1. The "risk owners" (management) will receive a risk update reminder sent by the Organisational Department twice a year, in March and September. They will also be provided with the Risk Matrix and "Fraud" Survey for completion, as well as with an invitation to the next meeting dedicated to risk management in the Company.
2. A month later, the Management Board will hold a plenary meeting about all the risks for the management. During the meeting the "risk owners" will present the results of their analyses, including the risk assessment, effectiveness of the control mechanisms (reactions to risk) applied and the further action proposals intended to enhance the efficiency of the risk management process. The results of the analyses conducted are subject to discussion, which results in their being approved or adjusted.
3. After the meeting, the Organisational Department promptly draws up the minutes of the meeting, which are enclosed with: The Company's Risk Matrix and the "Fraud" Survey results. After the approval of the minutes by the Management Board, the Organisational Department forwards them to the parties concerned for their information.

Identification and assessment of risks in construction contracts

Apart from the macro risk management system (at company level), the Parent Company is to implement the risk management system in construction contracts (micro risks).

The Parent Company identified the following risks in construction contracts:

1. Risk of documentation being lost,

2. Risk of errors in the design documentation,
3. Risk of having to modernise geodetic sleepers,
4. Risk of reconciliation of documentation and administrative decisions,
5. Risk of having to obtain an approval for an unforeseen track closure,
6. Failure to obtain approvals for track closures scheduled in the schedule of works proposed by the contractor,
7. Conflicts and discrepancies with the assumptions made in the tender,
8. Unexpected land and water conditions,
9. Discovery of archaeological remains,
10. Discovery of unexploded ordnance,
11. Damage to the existing infrastructure,
12. Unforeseen weather conditions,
13. Unavailability of key materials.

How will the construction contract risk management process be organised in the Parent Entity?

1. Each contract manager and the Management Board will meet once a month in order to discuss the contract completion status.
2. Each meeting's agenda will include the contract risk management issues. Contract manager presents the risks in accordance with the aforementioned classification, analysing risks relevant to a given contract. The most significant findings and expected actions are recorded in the minutes of the meeting.
3. After the meeting, the Organisational Department promptly draws up the minutes of the meeting, which contain the key conclusions and recommendations of the Management Board for the future. After the minutes have been approved by the Management Board, they will be sent to the parties concerned for their information.

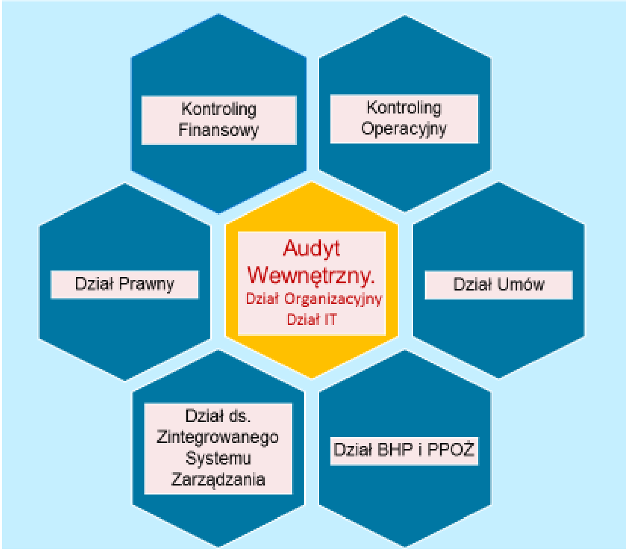
Internal control system

Every action aimed at verifying whether the adopted measures are consistent with the adopted assumptions, objective or purpose is understood as control.

Internal control in a company means any measure taken by the company's organisational units in order to verify:

- whether the processes function as designed, and in particular, whether the repetitive methods (mechanisms) for preventing irregularities which may occur in the processes are efficient?
- whether the processes have been designed accurately (logically and economically)?

In order to control such risks, the Parent Company will implement an internal control system that consists of the following seven elements:



PL	EN
Audyt Wewnętrzny Dział Organizacyjny Dział IT	Internal Audit Organisational Department IT Department
Kontroling Finansowy	Financial Controlling
Kontroling Operacyjny	Operating controlling
Dział Umów	Contract Department
Dział BHP I PPOŻ	OHS & FP Department
Dział ds. Zintegrowanego Systemu Zarządzania	Integrated Management System Department
Dział prawny	Legal Department

Internal Audit will be its "heart" and will formally coordinate cooperation between other organisational (control) units. The coordination will be ensured by the Organisational Department and the IT support for audit work will be provided by the IT Department.

How will the internal control system function in the Parent Company?

- Once every two months managers of organisational units hold control summary meetings during which they share their experience and information.
- Both past and future events are discussed in the context of risks and opportunities. Managers analyse the lessons learnt, opportunities seized and risks mitigated.
- Managers also submit proposals for new solutions (control mechanisms) and potential early warning automation or implementation of business principles allowing for the risks to be quantified.
- The Management Board and all the participants in the meeting are provided, on a regular basis, with a brief summary of the meeting.
- The meeting is coordinated and organised by the Organisational Department which is also responsible for supplying information to the Management Board.
- In addition to the regular meetings, managers of these seven organisational units exchange on an ongoing basis any important information regarding the functioning of the internal control system. If necessary, they forward such information to the Organisational Department forwards it further to the Management Board.

Ethics and prevention of corruption

GRI G4-56

Due to its nature, the construction industry is significantly more exposed to corruption and fraud than other branches of economic activities. The construction projects worth hundreds of millions Polish zlotys are implemented using many types of mass materials and many types of specialised machinery. They are sometimes several years long and involve the engagement of high-value assets. Supervision over such projects is a demanding task. Corruption means any improper use of power, and bribery consists in the offering, giving, receiving or soliciting anything that has value in order to achieve benefits. In this sense, bribes are not only money and objects, but also promises of benefits.

The Group has identified the following potential corruption risks:

- Risk that materials and services (employees and equipment) may be purchased from subcontractors at inflated prices
- Risk that liquid assets may be stolen
- Risk that assets may be undersold
- Risk that promises may be made which guarantee benefits to third parties as a result of the non-compliance with legal regulations
- Risk that bribes may be taken and given
- Risks that employees may be forced to carry out unlawful activities
- Risk of discriminatory treatment of employees
- Risk that confidential information may be stolen and sold to third parties
- Risk that transaction opportunities may be revealed to third parties.

The Group has implemented or intends to implement the following methods for managing the identified corruption risks:

Anti-corruption and anti-bribery programme

In order to minimise the risk of corruption, the Parent Company intends to take a series of interconnecting actions under the "Anti-corruption and Anti-bribery Programme", which comprises:

1. Identification of the key Ethical Principles,
2. Development of the Company's Code of Ethics,
3. Anti-corruption education,
4. Employee statements,
5. Fraud Signalling Channel,
6. Fraud scheme analysis and detection system,
7. Annual review of the Anti-corruption and Anti-bribery Programme.

Key Ethical Principles

The Group follows the following principles:

- "The boss sets a good example"
- "Education is better than punishment"
- "Prevention of fraud brings benefits"

This is a strong, clear and consistent message aimed at raising the awareness among employees of such pathological phenomena and establishing anti-corruption standards and applying them to the Group's operations. These principles are the final and fundamental point of reference for employees as far as ethical and non-ethical behaviour is concerned.

The Group's Code of Ethics

Based on common values, the Code of Ethics of Trakcja Group was adopted in 2016.

The Group's Code of Ethics focuses on the following values:

1. Responsibility – responsible proposals and declarations; reliable fulfilment of obligations towards customers.
2. People – respect for dignity and other personal goods of employees; opposition to discrimination based on any ground such as age, gender, ethnic origin, sexual orientation, belief, disability, professional experience or any other individual personal traits; freedom of association for trade unions and dialogue with them; monitoring of working conditions.
3. Relations – fair competition standards; zero tolerance for corruption, bribery and any other unethical behaviour; new contracts secured based on fair competition; cooperation with companies that care for occupational safety, comply with the provisions of law and respect the environment.
4. Dialogue – reaching terms of compromise in disputes.
5. Quality – works performed with due quality, professionalism and as quickly as possible; minimum burden for local communities.
6. Safety – workplace safety assurance.
7. Environment – respect for the environment; environmentally-friendly work performance technologies; selection of solutions with the lowest impact on the environment.
8. Competences – regular development of competences; expansion and renovation of machinery with modern and environmentally-friendly construction equipment.

Through their actions the Group's employees are obliged to observe the rule of work culture and behave in an ethical way. Relationships between employees are based on mutual trust, integrity, equality and tolerance. Therefore, the Group does not tolerate any actions that may be found offensive or humiliating, slandering, assailing, blackmailing, sexually molesting or intolerant.

In keeping with the Group's Code of Ethics, the Parent Company's employees are obliged to notify their supervisor or directly the Internal Audit Manager of any irregularities or violations of the provisions of the Code of Ethics. In 2016 and 2017, such notifications were not recorded.

Anti-corruption procedure in Bahn Technik Wrocław Sp. z o.o.

Bahn Technik Wrocław Sp. z o.o. has adopted the anti-corruption procedure, which applies to any corruption and fraud involving employees, as well as shareholders, consultants, suppliers, contractors and any entities having a business with the Company. In the document issued the Company defined corruption procedures and other fraud. The Company's employees are obliged to immediately notify the Company of any events of fraud or corruption. The Company implements the anti-corruption policy through the training of and awareness-raising among its employees. The Company has also developed a process for explaining corruption and other fraud events.

Anti-corruption education and employee statement

Each newly employed person is trained in adapting in new workplaces, during which they become familiar with the key ethical principles and the examples of corruption behaviour.

In addition, during the employment relationship, employees may ask their direct supervisors or the manager of a department responsible for human resources to explain any ethical doubts they have or to advise them on how they should behave in certain situations.

The Parent Company also aims at provide all its employees, on a yearly basis, with a “Fraud” Survey, which contains approximately 30 questions regarding all the most important aspects of pathologies and crimes that may be committed in a company. The questions may cover, in particular, such issues as the following: implemented ethical standards, fraud identification, fraud prevention through education, business areas that are especially exposed to fraud, detected attempts of soliciting fraud, receipt of information on potential fraud, employee proposals on the implementation of additional mechanism preventing fraud. Any information collected from the surveys is intended for the update of the scope and contents of the adaptation training for new employees and may be used in communications addressed to all the employees.

When an employee leaves the employment, the Group attempts to have an exit interview with such an employee in order to find out about the real reasons why the employee is leaving the Company and about the mood among other employees and any potential corruption (or bribery) behaviour or other frauds detected. The Group guarantees that any information provided by such an employee shall be kept confidential.

Fraud Signalling Channel

The estimated losses of companies caused by corruption are measured in millions of Polish zlotys. The Group is to launch a safe and anonymous communication channel for employees who may want to report any potential crime.

The launch of such a channel will be preceded by an awareness-raising campaign that is aimed at explaining any potential adverse effects of corruption and at highlighting that the channel launched will be intended only for facts and verified information, and not for slander, libel or any information motivated by frustration or revenge.

Moreover, in accordance with the draft of the Act on Transparency in Public Life, the Parent Company develops internal regulations compliant with the provisions thereof. The draft of the Act on Transparency in Public Life regulates the status of a whistleblower, i.e. a person “tied” to the Company under an employment contract or legal bond, who reports to law enforcement authorities any suspected irregularities as specified in the Act. An employer may not terminate an employment contract or employment relationship with a whistleblower or make any of the terms of his or her employment contract less favourable. This also applies to any whistle-blower connected with the Company under a contractual relationship other than an employment contract.

Policy on accepting gifts and other benefits by employees

In accordance with the draft of the Act on Transparency in Public Life, the Parent Company will develop a policy on accepting gifts and other benefits by employees, which will provide for a definition of the gift and set forth rules for accepting and making gifts by the Company’s employees.

Fraud Scheme Analysis

The Group plans to appoint persons responsible for carrying out fraud scheme analyses (if such are detected) and for announcing the outcomes of such analyses to the indicated groups of employees. This is aimed at recognising mechanisms of behaviour of potential fraudsters and at taking appropriate corrective actions such as rotation of employees on job positions.

IV. Environmental protection

Environmental policy

In the Parent Company, the environmental policy forms part of the Integrated Management System policy. It includes, among many, a commitment to take measures aimed at reducing emissions of pollutants to the air, a commitment to consume materials and raw materials in a reasonable manner, and a commitment to reduce the quantities of waste treated by authorised entities. Some subsidiaries have their own environmental protection policies.

AB Kauno Tiltai has adopted the following environmental protection policies:

- Emergency preparedness and response
- Environmental protection management policy.

Environmental objectives of the Parent Company and their achievement in 2017

Detailed objective	Task	Comments
Compliance of the Company's activities with the applicable provisions of law	To prepare a report on environmental charges in 2015 by individual province	Completed
Compliance of the Company's activities with the applicable provisions of law	To prepare records regarding waste generation in 2015	Completed
A place in the ranking of the Wrocław City Office (the lowest level of communal wastewater)	To monitor industrial wastewater so that the maximum permissible levels are not exceeded	In progress
Compliance of the Company's activities with the applicable provisions of law	To update authorisations and decisions regarding waste generation, as well as those required under water legislation for the locations in Wrocław and Warsaw	Completed
Raising pro-green awareness among employees	To urge employees to act in a pro-green manner at work (environmental call)	Completed
Reduction in the SO2 emissions to the air by 0.5% as compared to the preceding year	To use fuel oils with a lower sulphur content	In progress
Compliance of the Company's activities with the applicable provisions of law	To review the provisions of law concerning environmental protection and waste management To notify the organisational unit managers of any changes in environmental protection regulations	Completed
Prevention of technical failures	To ensure that the installation and the electrical and mechanical equipment is fully operational; to maintain equipment on an ongoing basis	In progress

Factory Production Control System

PEUiM Sp. z o.o., a subsidiary of the Parent Company, has implemented the Factory Production Control System. It is based on the requirements of PN-EN 13108-21 Bituminous mixtures — Material specifications — Part 21: Factory Production Control.

This system applies to the products and services of PEUiM Sp. z o.o. which fall into its activities consisting in the production of bituminous mixtures.

The Group's environmental impact control

The following are examples of the areas of activities which the Parent Company and, in some cases, its subsidiaries carry out in order to control its environmental impact:

Item	Monitored Element	Method	Obligations	Frequency
1	Emissions from oil-powered boiler room	The boiler house is serviced by a specialist company once a month (monitoring of the level of emissions)	- inspection of installations, - CO2 detector fitted for the safety of employees, - use of appropriate fuel type - heating oil (certificate)	- inspection of boiler room once a month, - analysis of emissions twice a year
2	Industrial wastewater	Monitoring of content of petroleum hydrocarbons in tested sample, as well as other pollution values specified in the contract with MPWiK.	- phosphorus ≤ 15 mgP/l, petroleum hydrocarbons ≤ 15 mg/l, - maintenance of an operations book, - compliance with the provisions of contract with MPWiK	Analysis of wastewater content at least twice a year
3	Storm water	Monitoring of the content of total suspended solids and petroleum substances.	- total suspended solids content: ≤100 mg/dm3, - petroleum substance content: ≤15 mg/ dm3	Analysis of water content at least twice a year
4	Waste material	Maintenance of waste record sheets, in compliance with environmental protection regulations (Waste Materials Act).	Compliance with provisions specified in the waste generation permit and in the waste management programme	Continuous compilation of waste record sheet copies

Biodiversity

GRI DMA-EN; GRI G4-EN12; GRI G4-SO2

An environmental impact of the investment projects implemented is of significant importance for the Group and its stakeholders. Due to a nature of the activities carried out by the Group companies, each construction project has an environmental impact and the majority of the actions taken are of key significance for environmental organisations that monitor the whole process. The Group's investment projects very often imply a permanent and irrevocable transformation of landscape and natural environment, which may constitute an inconvenience for local communities.

Rail investment projects implemented by the Parent Company and also some of its subsidiaries are very often located in or near areas of high environmental value, which as a result has an impact on the local biosphere. During each investment stage, namely:

- the planning stage,
- the implementation stage,
- the operation stage,

it is necessary to identify, estimate and potentially mitigate the majority of direct and indirect impacts. During the implementation of a contract, the designated specialists along with experts in other scientific disciplines, in particular, ornithologists, herpetologists, entomologists and botanists, are responsible for drawing up detailed environmental impact assessment reports. Thanks to the reports an actual environmental impact of a given project investment can be assessed and analysed in a reliable manner. Findings provided in the reports indicate detailed measures which may mitigate or eliminate the adverse environmental impacts of the investment project. Consequently, in the majority of cases, additional solutions are introduced in order to mitigate a risk of adverse impact, very often beyond legal requirements.

Environmental impact mitigation

There are at least several ways in which an adverse impact on biodiversity may be minimised by the Group. One of them to plan investment projects ex ante at a safe distance from any areas of particularly valuable nature. When it is impossible to exclude such areas from the planned project's impact, cooperation is established with companies that examine animal migrations, well before the planning stage begins. Detailed analyses of animals by species and quantities are carried out, and their results help in distributing various special elements of infrastructure in the affected area, for example, wildlife crossings. Each of them should overlap with the migration routes determined at the earlier stages of examination. For the purpose of efficient protection of local biodiversity it is also important to plan new plantings. They are distributed in such a way as to lead animals to the migration passes.

Furthermore, the schedule of construction works is adapted to the breeding period of birds that are present in the areas where the construction works are to be carried out.

Another issue of great importance is environmental protection against noise. During the implementation of the construction works the Group follows strict time regimes set for works implemented using equipment that causes noise. In addition to this, acoustic screens, which protect the nearest surroundings against noise caused by vehicles, are implemented along the roads and rail lines. The screens are of very good parameters which provide for high acoustic insulation and excellent noise absorption.

The Group is also prepared for any emergencies that may have an effect on biodiversity. The Group uses required equipment and materials such as absorbing agents used in case of chemical leakage.

Examples of adverse environmental impacts and preventing methods

Under the contract consisting in the construction of S5 express road from Szubin junction to Jaroszewo junction, the Parent Company carried out works involving the reallocation of the colliding infrastructure. The works posed a threat to the fauna living in the area. Therefore, the area was checked for presence of sand martins, amphibians and reptiles. As a result of the investigation carried out, one common toad, four edible frogs and one sand lizard were identified and reallocated. During the bridge-related works, leakage from heavy equipment, concrete laitance and dust contamination was detected. Any leaks were eliminated together with the polluted layer of soil and stored as hazardous waste.

During the implementation of the Jaworzno Szczakowa-Trzebnia, the Parent Company had to cut down trees in some areas. In order to mitigate an adverse impact thereof, 165 trees with properly developed crowns and trunks and the root system covered were planted. The trees were planted in keeping with the gardening practice. Before the trees were cut, an ornithologist appointed by the Parent Company carried out accurate investigation of the flora in the area in order to make sure that there no protected bird species inhabited the area.

Environmental risks

The Group has identified the following environmental risks:

Type of Hazard	Action
Machinery/installation fire.	Our plant and sites are equipped with operational extinguishing equipment; (emergency) fire procedure instructions are displayed.
Spillage of vehicle oil/fluid, etc.	The plant area and site yards are provided with containers filled with sawdust, to be used for the collection of fluid spillage. Oil containers are situated in special basins.
Spillage of heating oil in the boiler room.	Basins installed around heating oil tank units.
Spillage of machine oil into the soil (e.g. caused by a ruptured hose).	Neutralisation using sawdust.
Penetration of hazardous waste into the soil.	All hazardous waste is appropriately identified by name and code, and secured inside tanks and containers.
Noise	Planting trees and maintaining time regimes.
Negative impact on biodiversity	Genre analysis and study of migration paths.

Consumption of materials

The Groups aims at optimising consumption of materials. Actions taken:

No.	Optimised Use of Materials	Reduced Consumption
1	Elimination of workplace-assigned printers	Cartridges and toners
2	Replacement of lights with energy-saving ones	Fluorescent lights
3	Double-sided printing	Scrap paper
4	Modernisation of machinery and vehicle fleet	Oil, fuels, grease, filters, automotive parts
5	After cleaning and sifting, inspected crushed aggregate is re-used	Crushed aggregate
6	Crushed concrete is used for base courses in roads	Concrete rubble
7	Milled material is handed over to an asphalt manufacturing company	Asphalt

Please find below information on consumption of key materials or raw materials by weight or volume. The data provided herein pertain to Trakcja PRKiI S.A. and AB Kauno tiltai.

GRI G4-EN1

Material	Year ended 31.12.2017	Year ended 31.12.2016
Aggregate (t)	1 156 469	1 174 417
Sand (t)	353 584	450 737
Mixture of sand and gravel (t)	200 350	410 299
Gravel (t)	25 874	208 611
Aggregate (granite) (t)	71 991	88 791
Metal constructions (t)	9 877	18 858
Bitumen (t)	17 232	16 609
Mineral mixtures (t)	15 701	12 115
Asphalt (t)	18 362	10 081
Plank (m^3)	107	76
Cement (t)	818	1 584
Felt (m^2)	1 252	649
Copper contact wire (t)	495	475
Hot-rolled flat products	162	296
Cast iron and steel barbed wire; woven and twisted wire, cables, strips and other similar copper or aluminium products (t)	976	881
Including bare conductors (t)	*931*	*881*
Steel bars, hot-rolled, hot-drawn or extruded (t)	215	163
Sections, unprocessed apart from hot-rolling, hot-drawing or extrusion, made of steel (t)	2 050	2 156
Structural elements of railway or tramway tracks made of steel (t)	17 894	24 425
Including railway and tramway rails (t)	*15 514*	*21 187*

Energy consumption inside the organisation

GRI DMA-EN; GRI G4-EN3

The Group endeavours to optimise consumption of energy not only to mitigate its adverse environmental impact but also to reduce operating and environmental costs. The Group seeks to apply state-of-art manufacturing technology and use natural resources in an optimal way in order to reduce its adverse environmental impact. Employees are made aware, through environmental alerts, of energy-saving methods and its benefits. Energy-saving lights have been installed in the office premises, where natural light is used at its maximum and equipment is switched off after it has been used. In many office premises information is provided which reminds employees that it is important to switch off the lights, and printers are provided with information that printing is allowed only if necessary.

The table below presents consumption of energy inside the organisation in the Parent Company, AB Kauno Tiltai, PEUiM Sp. z o.o and Dalba Sp. z o.o. Other companies did not keep any records concerning consumption of energy inside the organisation in 2016 or 2017.

	Year ended	
	31.12.2017	**31.12.2016**
Heating energy	4 498	4 100
Electricity	12 050	16 908
Gas energy	1 988	2 164
Heating oil	4 891	4 510
Diesel oil	113 924	83 113
Petrol	5 212	2 636
LPG gas	152 403	116 791
Total consumption of energy and fuels	**294 965**	**230 222**

All the energy and fuels consumed are from non-renewable sources.

Air emissions

GRI DMA-EN

The nature of the Group's activities makes it impossible to totally eliminate the emission of greenhouse gases and makes it difficult to significantly reduce the consumption of fuels and energy. Despite the difficulties the Group takes actions aimed at reducing the air emissions.

In order to reduce the emissions by the oil boiler plant, the Parent Company optimises the operations of the oil boiler plant located in Wrocław at ul. Lotnicza 100. As a consequence, the emissions are not high and do not exceed the emission limit values.

In order to minimise the air emissions caused by exhaust fumes the Group uses modern vehicle fleets and exhaust catalysts. Furthermore the exhaust emissions are reduced due to the replacement and modernisation of the old equipment and transport vehicles with more economical ones, with a lower engine capacity and meeting more rigorous standards.

In order to reduce emissions of dust during the transport of bulk materials, the means of transport are thoroughly covered with canvass.

For PEUiM Sp. z o.o., emissions are caused by the bituminous mass production plant. Taking into account its surroundings, an impact of the emission on the air purity in the nearest surroundings of the plant is relatively marginal and basically does not affect the local conditions of this part of the city. An emission impact of emitters and emission sources of the eTOWER 2500 MARINI system located in the area falls within the range between 2% (for carbon monoxide and aromatic hydrocarbons) and 20% (for nitrogen dioxide) of short-term concentration limits and between 1% (for all the analysed pollutants, except for sulphur dioxide and nitrogen dioxide) and 3% (for sulphur dioxide and nitrogen dioxide) of annual average concentration limits. The emission impact in the area and in the nearest vicinity of a residential development falls entirely within the admissible limits, i.e. between 1% (for carbon monoxide, aliphatic and aromatic hydrocarbons) and 46% (for nitrogen dioxide) of short-term limits (references).

The emission rates for the eTOWER 2500 MARINI system in the bituminous mass production plant in Białystok and for the bituminous mass production processes carried out by the plant expressed as a unit of emission per a unit of production are as follows:

Pollution	kg/Mg bitumen mass
dust	0.01198
sulphur dioxide	0.00064
nitrogen dioxide	0.02213
carbon monoxide	0.1056
phenol	0.00008
aliphatic hydrocarbons	0.00384
aromatic hydrocarbons	0.00071

Emission of organic compounds to the air:

GRI G4-EN21

	Year ended	
Substance (kg)	**31.12.2017**	**31.12.2016**
Benzene	0	105
Ring, aromatic hydrocarbons and their derivatives	5 516	319
Aliphatic hydrocarbons and their derivatives	25	46
Ring, aromatic alcohols and their derivatives	8	31
Aliphatic alcohols and their derivatives	6	269
Organic acids	277	160
Ketones and their derivatives	173	122
Nitric oxides	9 900	10 611
Carbon monoxide	37 981	41 590
Other dusts	1 198	133
Zinc	0	3
Non-metallic oxides	7	0
Sulphur dioxide	724	368
Dust	36 920	43 910
Volatile organic compounds	6 290	6 000
Trichlorethylene	380	20

This data pertains to the Parent Company, AB Kauno Tiltai and PEUiM Sp. z o.o. No emissions in other companies.

Mitigation of environmental impact of products and services

GRI G4-SO2

The performance of construction contracts is inevitably related with the noise emission. With the use of mechanical equipment such as construction machines and transport vehicles on a daily basis, the Group's level of noise pollution is high. In order to mitigate this adverse impact many solutions and tools for have been implemented to counteract this type of environmental contamination. One of the solutions used was the planting of trees which not only reduce the noise emission, but also protect against exhaust fumes and dust. In addition to this vibrating mats and sound-proof screens are used which effectively reduce the noise emission originating from the use of trucks and turnouts.

Waste

GRI G4-EN23

The Group endeavours to reduce to a minimum the quantity of waste generated. Waste, if not used for internal purposes, is collected only by entities authorised by a relevant authority to carry out business activities in the area of waste management. The ongoing supervision is ensured through the quality and quantity records.
The table below presents the major types of waste generated in the Group in 2017 as compared to 2016 (t).

	Year ended	
Type of waste	**31.12.2017**	**31.12.2016**
Mineral hydraulic oils without chlorinated organic compounds	0	1
Other engine, transmission and lube oils	2	4
Concrete waste	11 014	9 735
Wastes of other ceramic materials and equipment items	29	0
Used ceramic insulators	0	10
Mixture of concrete waste and rubble	0	460
Wooden waste	0	3 080
Glass	1	1
Plastics	0	1
Wooden, glass and plastic waste	326	6 600
Other asphalt	208	1 500
Copper, bronze, brass	4	0
Iron and steel	119	35
Other cables	3	1
Soil, earth, including stones, other	40 617	313 000
Excavated soil	0	4 530
Track ballast	37 124	149 600
Mixed waste from construction site	5 040	16 790
Bituminous mixtures	5 071	9 949

GRI G4-EN2

The total waste generated in 2017 was 99 498 tonnes, including 67 113 tonnes used for internal purposes. This is 67.45% of the total waste.

Waste used for internal purposes:

	Year ended	
Waste (tonnes)	**31.12.2017**	**31.12.2016**
Concrete waste and concrete rubble	4 687	6 457
Asphalt waste	28 231	15 889
Track ballast	5 080	115 400
Soil mass	23 300	0
Mixed waste from site	5 815	8 732

Other waste was collected by the authorised entities (companies granted waste collection authorisations) or natural persons in accordance with the Regulation of the Minister of Environment of November 10, 2015 and the Regulation of the Ministry of Environment of the Lithuanian Republic.

V. Social and employee aspects

GRI DMA-LA; GRI G4-LA2

Trakcja Group employs nearly 2000 employees and is one of the largest employers in the construction industry both in Poland and in Lithuania. There are over 20 different professions practised, which are specific to the rail, road and energy industries, and therefore it is fundamental to develop and maintain employee competences as they are the foundation for the Parent Company's human resources policy. The key success factors are incentive schemes that encourage employees to seek further improvements in the operational activities and enhancement of returns on the construction contracts. The Group is conscious of the fact that in the construction industry, in which the majority of the Group companies operate, the human element is the factor that provides for competitive advantage. Therefore, the Group endeavours to build long-lasting relationships with its employees by offering them, in particular, attractive salaries, a differentiated bonus system, retirement allowances, jubilee bonuses and many other benefits such as contributions to the professional development of employees through the co-financing of language courses (such as English, Russian, Swedish and Latvian language courses), memberships in the industry organisations, for example, in the Chamber of Engineers, extensive medical assistance packages, Employee Pension Plans, as well as the reimbursement of travel expenses, accommodation, extras related to the entrusted duties and various other long- and short-term benefits. In addition, due to the fact that the Group carries out construction works in many industries, it offers its employees ample opportunities to develop competences within a single organisation. In the subsidiary, AB Kauno Tiltai, career paths of all its employees are standardised and described according to ISO standards. The employee competences, in particular in the railway and construction-related professions, are regulated by numerous national regulations, compliance with which is ensured by the system of training and briefing that has been implemented by the Company. The management boards of the Group companies maintain a regular dialogue with trade unions that operate within the companies. Good relations with the trade unions reflect positively on the efficiency of social activities focused on our employees.

The Group companies that employ people adopted remuneration regulations and working regulations. The Group has implemented numerous incentive systems which are intended for all the employee groups and which aim at enhancing the work efficiency and optimising the employment costs. The Parent Company has also adopted the Bonus Payment Procedure.

Structure of employment

GRI G4-10; GRI G4-LA12

Total number of employees by gender:

	31.12.2017	31.12.2016
Women	286	244
Men	1 813	1 711
Total	**2 099**	**1 955**

Total number of employees by age:

	31.12.2017	31.12.2016
< 30	343	264
Between 30 and 50	1 102	1 029
> 50	654	662
Total	**2 099**	**1 955**

The largest age group in the Group is that of employees between 30 and 50 years old who make up over 50% of the entire workforce. The second largest age group is that of employees over 50. The majority of employees are male. The majority of the Group's employees are employed under full-time employment contracts of unlimited duration. Employees are employed in Poland, Lithuania, Sweden, Bulgaria and Ukraine.

The share of women in the employment structure reflects the nature of the construction industry. An increase in the share of women in 2017 results, in particular, from the engagement of female personnel in the areas of production responsible for administration and technical supervision.

Total number of employees by type of contract and gender:

	31.12.2017		31.12.2016	
	Women	Men	Women	Men
Contract of unlimited duration	243	1 579	209	1 528
Contract of limited duration	43	234	35	183
Total	**286**	**1 813**	**244**	**1 711**

	31.12.2017		31.12.2016	
	Women	Men	Women	Men
Full-time employment	279	1 804	234	1 702
Part-time employment	7	9	10	9
Total	**286**	**1 813**	**244**	**1 711**

The Group's objective is to provide for stable employment to its employees through the enhancement of full-time and reduction in part-time employment. An increase in the number of part-time employment contracts in 2017 resulted from the acquisition of new employees who were at the beginning of their employment periods.

Employees by employment category:

	31.12.2017		31.12.2016	
	Women	Men	Women	Men
Management Board	0	5	0	3
Senior management	18	64	18	58
Management	24	216	17	146
White-collar employees	240	312	204	317
Blue-collar employees	4	1 216	5	1 187
Total	**286**	**1 813**	**244**	**1 711**

The "Management Board" category represents the Management Board of the Parent Company. The management boards of the subsidiaries are included in the "Senior management" category.

Corporate bodies:

	31.12.2017		31.12.2016	
	Management Board	Supervisory Board	Management Board	Supervisory Board
Between 30 and 50	60%	43%	67%	43%
> 50	40%	57%	33%	57%

Applicable to the Parent Company's Supervisory Board: In 2017 and 2016 the Supervisory Board members were all male and three of them were foreign citizens.

Pay equity

GRI DMA-EC; GRI G4-EC5; GRI DMA-LA; GRI G4-LA13

The ratio of the average salary paid to men to the average salary paid to women by employment categories is as follows:

	31.12.2017	31.12.2016
Management Board	na	na
Senior management	155%	150%
Management	156%	96%
White-collar employees	119%	127%
Blue-collar employees	122%	124%

The category that consists only of men has not been included.

AB Kauno Tiltai follows the policy entitled "Supervision over Applications suitable to the Policy of Equal Rights", which provides for clear guidelines on how to ensure equal rights in the company. The Company makes sure that all the job applicants and existing employees are treated equally, irrespective of circumstances.

Despite the fact that indicators show that men earn more in the Group than women, the Group ensures equal remuneration for the same job, and the discrepancies result only from different duties and responsibilities.

The ratio of remuneration at the lowest level of employment by gender to the minimum remuneration in Poland is as follows:

	31.12.2017	31.12.2016
Women	168%	145%
Men	188%	166%
The minimum remuneration in Poland (PLN)	**2 000**	**1 850**

Employees in the lowest category of employment earn an average of over 60% more than the minimum remuneration in Poland and in Lithuania. Despite the regular increase in the minimum wages in Poland, the ratios show an increase on a year-to-year basis.

Employee turnover

GRI G4-LA1

The increased employee turnover in 2017 resulted from the restructuring process in the Parent Company and from changes in the labour market in Poland, and in particular, a decrease in the unemployment level. Taking the planned expansion of operations into account, the Parent Company's focus in 2017 was mainly on recruiting employees.

AB Kauno Tiltai actively searches for new employees through the implementation of the "Akademija kaunotiltai" project, which is organised together with the following leading education institutions: Vilnius Gedimino technikos university and Kauno technikos kolegija and Baltijos pažangių technologijų institute. Numerous meetings are held with students and also school pupils on the working days. In addition to this many education fairs, non-commercial festivals are organised during which the company promotes the profession of an engineer. Another initiative is the TV programme entitled "Įdomioji inžinerija" ("Engineering Made Fascinating").

New employees by age and gender:

	2017	2016
< 30	289	195
Between 30 and 50	340	266
> 50	131	85
Total	**760**	**546**

	2017	2016
Women	82	42
Men	678	504
Total	**760**	**546**

% of the newly employed in the total number of employees	**36%**	**28%**

Departing employees by age and gender:

	2017	2016
< 30	175	171
Between 30 and 50	251	238
> 50	135	179
Total	**561**	**588**

	2017	2016
Women	31	33
Men	530	555
Total	**561**	**588**

Fluctuation ratio	**27%**	**30%**

2017 saw a period of strong increase in the infrastructure investment projects in Poland. The job market was saturated by new job offers which resulted in specialists reallocating between the companies. Simultaneously, the Group continued to efficiently meet its ongoing human-resources needs and effectively acquired personnel for the development of the Group's new competences.

Training

GRI DMA-LA; GRI G4-LA9

The Group is committed to ensuring that its employees have opportunities for development. In order to achieve this it offers trainings and support in further education. In 2017, the Group's employees participated in over 11 thousand hours of training. The number of hours was slightly lower, but that may be justified by the fast rotation of employees.

Number of training hours by employment category and gender:

	2017		2016	
	Women	Men	Women	Men
Management Board	0	0	0	0
Senior management	147	136	102	224
Management	128	2 296	54	360
White-collar employees	398	816	176	2 310
Blue-collar employees	0	7 325	0	9 610
Total	**673**	**10 573**	**332**	**12 504**

Average number of training hours by employment category and gender:

	2017		2016	
	Women	Men	Women	Men
Management Board	nd	0,0	nd	0,0
Senior management	8,2	2,1	5,7	3,9
Management	5,3	10,6	3,2	2,5
White-collar employees	1,7	2,6	0,9	7,3
Blue-collar employees	0,0	6,0	0,0	8,1
Average number of training hours	**2,4**	**5,8**	**1,4**	**7,3**

Risk associated with employment issues

The Group seeks to identify and implement preventive actions also in the employment area. The most significant types of risk related to employment and employees are as follows:

- Risk of loss of employees due to:
  - Non-market terms of employment,
  - Absence of incentive schemes,
  - Unsuitable working conditions,
  - Organised acquisition by other employers.

One of the preventive measures taken was the implementation by the Parent Company of new remuneration regulations, which promote team work orientated towards co-achievement of actual goals and bonuses related thereto, whose value is determined depending on the type of task. For the bonus to be paid, supervisory employees need to consistently collaborate with their subordinates so that the goals are met. The Parent Company implemented several types of bonuses for short-, medium- and long-term goals. The Group monitors, on an ongoing basis, current wage rates, which enables it to keep its remunerations at an attractive level. Furthermore, the Group endeavours to monitor and control, on a regular basis, training needs associated with individual job positions.

The Parent Company mitigates the risk that it may have no new employees through the establishment of a new unit responsible for recruitment processes.

Occupational health and safety

GRI DMA-LA

The Group has identified two key risks related to the occupational health and safety:

- Risk of accidents at work;
- Risk of occupational diseases.

The Group places a strong emphasis on ensuring a high level of occupational safety, employee health protection, proper social conditions and on compliance with legal regulations applicable thereto. The Group manages risk related to the occupational health and safety aspects in accordance with the policies described below.

Some of the Group companies organise health examination and free vaccinations for its employees.

The Parent Company, AB Kauno Tiltai and Bahn Technik Wrocław Sp. z o.o., implemented the occupational health and safety management system compliant with PN-N-18001 (OHSAS). The efficient system allows, in particular, for:

- injuries and losses related thereto to be prevented,
- occupational diseases to be eliminated,
- absence through sickness to be minimised,

- employees to be engaged in the area of the OHS,
- the quality and productivity at work to be increased.

The systems are checked on a regular basis. In order to ensure a high safety culture, some of the Group companies have their own OHS Committee whose members are the representatives of employees and employer.

Its main tasks include:

- Reviewing working conditions,
- Assessing occupational health and safety on a regular basis,
- Giving opinions on measures taken by the employer in order to prevent accidents at work and occupational diseases,
- Developing proposals for the improvement in working conditions.

The occupational health and safety regulations applicable in the Group are also provided in the work regulations adopted by individual companies.

In addition, AB Kauno tiltai developed the following occupational health and safety procedures:

- Identification of threats, risk assessment and management,
- Occupational health and safety organisation

OHS preventive actions

The Occupational Health and Safety Management Policy which has been applicable to the Parent Company since 2012 allows for information to be collected in a comprehensive way not only about accidents but also about near-misses. The identification of hazards is used for scheduling training needs and for implementing both corrective and preventive actions. A significant role is played in this process by the OHS coordinators who support the contract management and perform the tasks of the OHS service.

The preventive actions include the “Commandments” which were developed by the Parent Company in 2016 and which in a simple and clear manner remind its employees of the principles they must remember before commencing any works. In 2017 the Commandments were transferred to banners and have become part of the construction site’s designation. For visitors, the Parent Company has developed the “Information Brochure” which contains, in particular, the rules for behaving at the construction site, and which lists prohibited actions and mandatory protective equipment. Each new person or company entering the construction site must be reported to both the construction manager and OHS coordinator and must become familiar with hazards to which they may be exposed.

In order to structure its actions, the Parent Company has developed the “Long-term OHS Plan” in which the objectives, vision and mission of the OHS services are described along with the methods for their fulfilment. The Company's vision is to seek opportunities for development which will lead to the Company being certified as a “Safe Company”, and which is seen to be “supporting employees in creating a safe type of business that is able to attract, develop, stimulate and retain exceptional people”.

In 2016, the Parent Company became a member of the European Federation of Railway Trackworks Contractors (EFRTC). The EFRTC deals with questions of safety in the works carried out at the railway sites.

Thanks to the co-financing granted by PZU in 2017 Trakcja PRKiI purchased and equipped its largest contracts with resuscitators, i.e. defibrillators. All the employees at the construction sites were trained in how to use them and in how to give first aid.

Personal protective equipment used by the employees of Trakcja PRKiI was also analysed. The analysis aimed at not only accessing of whether such equipment is suitable for working conditions and for the needs of employees and the nature of works performed and whether it complies with the standard requirements. The results are used as guidelines on the purchases required.

As the Parent Company is constantly enhancing its safety culture and due to the changing tender conditions, two early warning systems (ASO) were purchased in 2017. They are radio warning systems and are used to warn employees who work on tracks, with the use of an acoustic and optical signal, that a train is coming. A significant advantage of these systems is the fact that they are started automatically by a rail vehicle that approaches a place on the trucks where works are carried out. Systems provide for a high level of safety for the employees, in particular, when the tracks are available for vehicles moving with the speed V>100 km/h.

The Parent Company has implemented the two following management systems that are very important from the point of view of rail safety:

Safety Management System (SMS) – Being a railway carrier, the Parent Company has adopted and implemented the relevant procedures and measures for safe transporting of various goods by rail. All the solutions included in the SMS are intended to ensure that we can, on an ongoing basis, identify two sets of hazards: those that arise in all the areas related to rail transport services, and those resulting from cooperation with other participants in the railway market and other service providers. The SMS procedures ensure, on the one hand, the implementation of risk control measures, and on the other, allow for the effectiveness of the applied measures to be monitored (in particular, through the audit and internal control system regarding the SMS). The SMS procedures are developed in accordance with the criteria set forth in Commission Regulation No. 1158/2010 and in the Regulation of the Minister of Transport on the safety management system dated March 19, 2007. The procedures define:

- risk control,
- division of responsibilities and ensuring control by the management at various levels,
- employee competence management,
- audits and internal controls,
- reporting and investigation of railway incidents.

Maintenance Management System (MMS) – This is a system that has been voluntarily implemented by the Company. It includes procedures and manuals relating to the minimisation of the risk associated with the maintenance of freight wagons in order to provide for their safe operation.

Safety Culture Declaration

In 2016, the Parent Company signed the Safety Culture Declaration. This project was launched by the Polish Office of Rail Transportation. The key focus thereof is the implementation of safety culture principles in the rail transport industry by encouraging the railway sector operators to have improving safety as their paramount value. By signing this document the Company declared its intention to:

- perceive safety as the paramount value for its employees and organisation,
- accept the safety standards and to integrate them into its everyday operations,
- move away from the practice of apportioning blame,
- record and analyse the incidents reported,
- report any type of irregularities or errors,
- continuously improve the management systems through the taking of corrective and preventive actions,
- adopt a zero tolerance approach to any violation of the provisions of law or internal procedures.

OHS training

Due to the specific nature of the tasks performed, the Parent Company's blue collar workers are subject to regular OHS training every year. The engineering and managerial employees are trained every five years, and the administrative employees, every six years.

In the course of the training held, the Group endeavours to demonstrate to its employees that safe behaviour at work results in better working conditions and better working method. The Group seeks to improve the safety awareness among its employees.

The educational and preventive process implemented by the Group includes also many other measures, i.e.:

- first aid training,
- refresher training for the management,
- unified construction site labelling and the provision of OHS banners and notice boards,
- identification of locations in which special precautions are required,
- introduction of a new model of personal protective clothing with the enhanced visibility, weather-resistance and heat absorbency,
- creation of a tab in the Company's Intranet, dedicated to the occupational safety issues,
- management meetings whose agenda includes in particular the needs associated with the improvement in the job positions and OHS,
- brochures and articles dedicated to the OHS.

Safe Work Leaders' Forum

In 2017, bearing in mind the need to provide for hygienic and safe workplaces, the Parent Company was granted the Safe Work Leader Accreditation issued by the Central Institute for Labour Protection – National Research Institute (CIOP-PIB). In 1998, the CIOP-PIB established the Safe Work Leaders' Forum whose aim is to develop cooperation among its members, as well as employers and employees who, in order to optimise working conditions, apply the achievements of science and technology, in particular, those developed by the CIOP-PIB. The Safe Work Leaders' Forum is also responsible for taking actions aimed at implementing and distributing the results of the long-term programme entitled "Improving work safety and working conditions" and also those of other programmes coordinated by the CIOP-PIB, as well as carrying out research and targeted projects.

Impact on local community

GRI G4-SO2; GRI DMA-SO

The Group plays an important role in providing for adequate technical conditions for the rail traffic, modernisation and construction of rail lines, and also construction of works both in Poland and in Lithuania.

The Group is sensitive to the needs of local communities. High quality of the works performed and fulfilment of liabilities are the key principles for building relationships between the Group and its customers. Each customer is guaranteed cooperation based on such values as professionalism, accountability, efficient management and respect for customers, employees, business partners, competitors, local communities and environment. Each construction project is preceded by a precise evaluation of the area's conditions and by the creation of positive relations that foster the effective carrying out of works. However, the construction works performed often cause increases in vehicle traffic, dust and noise. The Group is aware of the fact that the contracts performed entail not only benefits, but also certain inconveniences for local communities. During the performance of rail contracts, level crossings are closed, train schedules are amended and certain connections are suspended. During the performance of road works, it is necessary to introduce detours and other disadvantages that very often make the way to work or school much longer. All such changes have a significant impact on the lives of local inhabitants. The Group endeavours to react positively to any signals that come from authorities and inhabitants and to implements organisational solutions that minimise any inconvenience caused. Inconvenience resulting from the works carried out is one of the topics discussed at the meeting of the construction council which is a regular meeting with the investor held in relation to each contract performed. Such meetings are usually held once a week with participation of the investor and supervision engineer. They are used for analysis signals reported by inhabitants and local authorities and for agreeing on measures to be taken in order to minimise any convenience caused. The Group is not able to estimate how many various objections have been made by the local communities, but efforts are being made to make sure that no problems occur and no signals remain unsolved. The Group frequently carries out numerous works which exceed the scope of the contracts signed, but which improve the quality of life of the local residents. This includes, in particular, the modernisation of pavements or the construction of access roads to fields and premises, or the reconstruction of other infrastructure elements.

In order to stimulate the development of local entrepreneurship, Trakcja Group attempts to engage, as far as it is practicable, local employees, subcontractors and suppliers.

CSR activities

The Group supports sport, cultural and charitable activities. The Parent Company was one of the organisers and the primary sponsor of a two-day music event attended by world-famous blues musicians, which included music workshops for young performers. The Group also supports any sport-related employee initiatives and sponsors the company football team (kit, training and tournaments) and the participation of the Company's employees in company races. For several years all greeting cards have been purchased from a foundation that collects funds for charitable purposes. Furthermore, the Group also supports local pharmacies, assisted living facilities and cultural events in the areas in which it carries out its activities. The Group also supports its employees engaged in internal voluntary projects, for example blood donation, collection of money for children (AB Kauno Tiltai supports the project entitled: "Money Day") or donation of books and literature to the assisted living facilities.

Risks in relationships with local communities

An immanent feature of the construction process is temporary inconvenience in the functioning of local communities. Changes in traffic organisation, detours, noise or difficult access to the property are reasons for periodic deterioration in the quality of life of local residents, and as a consequence become sources of negative emotions. The key risk during the implementation of construction works is that the discontent may escalate and result in such construction works being extended or suspended. The Group has implemented a series of measures counteracting such situations, as a result of which in the last period they occurred only occasionally and did not have any significant impact on the contracts implemented in the previous year. These measures are as follows:

1. Close cooperation with local authorities, in particular, at the stage of carrying out the preparatory works aimed at the selection of the solution most optimal for the local community.
2. Regular information measures taken in collaboration with the awarding entity and local authorities.
3. Ongoing monitoring of signals that come from residents, both directly to the Group and to the local authorities, the awarding entity or through the local media. Attention should be paid, in particular, to the daily monitoring of media: newspapers, radio, television, Internet, and in particular social media. Any publication that indicates any irregularities or tensions is forwarded to the relevant entity that manages the construction site concerned. The Parent Company monitors media on every working day and the report

thereon is issued every day by 9.30 a.m. This way, the Parent Company issues on average 250 daily reports and nearly 150 ad hoc reports per year. A very effecting action of the Parent Company, as far as communication area is concerned, involved the establishment of permanent cooperation with the administrator of the profile dedicated to the investment project, which was opened on one of the social media portals. This resulted in swift and professional exchange of information.

4. Easy traceability of the Company – through the legible indication of the area in which works are carried out, and of vehicles and information boards, and the location of well-designated construction site offices.
5. Building confidence in the contractor – through non-standard actions such as information meetings with local population, educational trips to the construction site, provision of elements that improve visibility, etc.

Human rights and child labour and forced labour

GRI G4-HR5; GRI G4-HR6

The Group has adopted and adheres to the Group's Code of Ethics which is an expression of the Group's attitude towards the provisions of law that regulate civil rights and employment rights. In addition to the observance of national laws applicable in the locations in which the Group companies operate, they also adopted the work regulations and the remuneration regulations, whose aim is to provide for decent working conditions and fair compensation dependent on the position held, skills offered and performance achieved. Trakcja Group is a reliable employer providing stability of employment, which is demonstrated by the share of employees over 50 in the total employment, resulting mainly from the fact that new employees have been hired in that age group. The Group regulated issues related to decent working and living conditions of employees, and therefore basic human rights. The Group mitigates the risk of violation of labour regulations. A nature of work requires that many employees make business trips all around the country. By ensuring such benefits as residential premises, accommodation supplements, reimbursement of the costs of transport, coverage of additional costs of household outside the place of residence, provision for the high-quality healthcare services and supplements to leisure, recreation and social benefits, the Group has achieved a high level of employee satisfaction and respected their basic human rights.

The Group has not been notified of any cases of discrimination based on gender, belief, religious orientation or any other aspects, and therefore there is no indication that any additional regulations should be implemented in that area. In 2017 no actions were identified which could pose a significant risk that child labour or forced labour or compulsory labour may be used by the Group.

VI. Selected GRI ratios presented herein

Ratio no.	Ratio name	Comments/ Description	Page
Organisational profile			
G4-4	Primary brands, products or services	[Business model]	6
G4-10	Total number of employees by employment type, employment kind, employment contract, region and gender	[Structure of employment]	27
G4-11	Percentage of total employees covered by collective bargaining agreements	0% of employees were covered by collective bargaining agreements	
G4-12	Supply chain description	[Cooperation with suppliers]	9
Ethics			
G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	[Ethics and prevention of corruption]	15
Detailed information			
Category: Economic			
Market presence			
DMA-EC	Approach to management	[Pay equity]	28
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	[Pay equity]	28
Category: Environmental			
Raw materials and materials			
DMA-EN	Approach to management	[Environmental impact]	22
G4-EN1	Materials/ Raw materials used by weight or volume	[Non-financial data]	23
G4-EN2	Percentage of materials used that are recycled input materials	[Non-financial data]	26
Energy			
DMA-EN	Approach to management	[Energy consumption within the organisation]	23
G4-EN3	[Energy consumption outside the organisation]	[Energy consumption within the organisation]	23
Biodiversity			
DMA-EN	Approach to management	[Biodiversity]	20
G4-EN12	Description of significant impact of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	[Biodiversity]	20
Emissions			
DMA-EN	Approach to management	[Air emissions]	24
G4-EN21	NOx, SOx and other significant air emissions by type of compound and weight	[Air emissions]	25
Affluence and waste			
G4-EN23	Total weight of waste by type and	[Waste]	26

	disposal method		
Compliance with regulations			
G4-EN29	Monetary value of fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	In 2017, as in the preceding years, the Group was not charged with any non-monetary sanctions for non-compliance by its employees with legal provisions of the environmental protection law.	
Category: Social			
Subcategory: Labour practices and decent work			
Employment			
DMA-LA	Approach to management	[Social and employee aspects]	27
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	[Employee turnover]	
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	[Our employees] All employees are provided with the same benefits.	29
Occupational health and safety			
DMA-LA	Approach to management	[Occupational health and safety]	31
G4-LA5	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs	The OHS Committee represents 100% of the Parent Company's employees.	
Education and training			
DMA-LA	Approach to management	[Training]	30
G4-LA9	Average hours of training per year per employee by gender and employee category	[Training]	30
Diversity and equal opportunities			
G4-LA12	Composition of management bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	[Structure of employment]	27
Equal remuneration for women and men			
DMA-LA	Approach to management	[Pay equity]	28
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category and by significant locations of operation	[Pay equity]	28
Subcategory: Society			
Child labour			
G4-HR5	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to their elimination	[Human rights and child labour and forced labour]	36

Forced labour			
G4-HR6	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to their elimination	[Human rights and child labour and forced labour]	36
Community			
DMA-SO	Approach to management	[Impact on local community]	
G4-SO2	Operations with significant actual and potential adverse impacts on local communities	[Biodiversity] [Mitigation of environmental impact of products and services] [Impact on local community]	12 25 34
Corruption			
DMA-SO	Approach to management	[Ethics and prevention of corruption]	15
G4-SO5	Confirmed incidents of corruption and actions taken	In 2017, the Company did not have any confirmed incidents of corruption reported.	
G4-SO6	Total financial and in-kind value of donations for political parties, politicians and institutions of a similar nature, by countries.	PLN 0	

Jarosław Tomaszewski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Warsaw, March 28, 2018

TRAKCJA
CAPITAL GROUP

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR

ENDED DECEMBER 31, 2017

This document is a translation
The Polish original should be referred to in matters of interpretation

APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The Management Board of Trakcja PRKiI S.A. approved the consolidated annual financial statements of Trakcja Capital Group for the period from January 1, 2017 to December 31, 2017.

The consolidated annual financial statements for the period from January 1, 2017 to December 31, 2017 were prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union, published and applicable as at December 31, 2017. Information included herein is presented in the following sequence:

1. Consolidated income statement for the period from January 1, 2017 to December 31, 2017, which shows a net profit of PLN **32 043** thousand.
2. Consolidated statement of comprehensive income for the period from January 1, 2017 to December 31, 2017, which shows the positive total comprehensive income of PLN **12 626** thousand.
3. Consolidated balance sheet as at December 31, 2017, which shows the total assets and total equity and liabilities of PLN **1 442 280** thousand.
4. Consolidated statement of cash flows for the period from January 1, 2017 to December 31, 2017, which shows a decrease in the total net cash flows by PLN **34 188** thousand.
5. Consolidated statement of changes in equity for the period from January 1, 2017 to December 31, 2017, which shows a decrease in the consolidated equity by PLN **13 933** thousand.
6. Notes.

The consolidated annual financial statements have been drawn up in thousands of Polish zlotys, unless explicitly stated otherwise.

Certain financial and operational data provided herein have been rounded. Therefore, the sum of the amounts in a given column or row in certain tables provided herein may differ slightly from the total amount given for such a column or row.

Jarosław Tomaszewski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

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Aldas Rusevičius

Vice-President of the Management Board

Warsaw, March 28, 2018

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(Data in PLN thousand, unless indicated otherwise)

CONSOLIDATED INCOME STATEMENT

	Note	1.01.2017 - 31.12.2017 *Audited*	1.01.2016 - 31.12.2016 *Audited*
Continued operations			
Sales revenue	13	1 374 291	1 381 173
Cost of goods sold	14	(1 280 956)	(1 233 007)
Gross profit (loss) on sales		**93 335**	**148 166**
Cost of sales, marketing and distribution	14	(5 430)	(6 261)
General and administrative costs	14	(50 991)	(61 170)
Other operating revenues	15	4 872	14 922
Other operating costs	16	(3 668)	(10 314)
Share in the result of the jointly controlled entity	27.1	-	248
Goodwill impairment	24	-	(11 799)
Operating profit (loss)		**38 118**	**73 792**
Financial revenues	17	5 888	4 525
Financial costs	18	(10 879)	(10 986)
Gross profit (loss)		**33 127**	**67 331**
Income tax	19	(1 084)	(10 999)
Net profit from continued operation		**32 043**	**56 332**
Net profit (loss) from discontinued operations	20	-	-
Net profit for the period		**32 043**	**56 332**
Attributable to:			
Shareholders of Parent entity		31 429	54 685
Non-controlling interest		614	1 647

Profit (loss) per share attributable to equity holders of the Parent Company during the period (in PLN per share)

Basic	21	0,61	1,06
Diluted	21	0,61	1,06

(Data in PLN thousand, unless indicated otherwise)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	1.01.2017 - 31.12.2017 *Audited*	1.01.2016 - 31.12.2016 *Audited*
Net profit for the period		**32 043**	**56 332**
Other comprehensive income:			
Other comprehensive income that will not be reclassified into profit or loss under certain conditions:		**(581)**	**541**
Profit from revaluation referred into revaluation reserve		-	(413)
Actuarial gains/(losses)	37	(581)	954
Other comprehensive income that will be reclassified to profit or loss:		**(18 836)**	**11 162**
Foreign exchange differences on translation of foreign operations		(19 952)	11 926
Cash flow hedging instruments	40	1 116	(764)
Total other comprehensive income		**(19 417)**	**11 703**
Total comprehensive income for the period		**12 626**	**68 035**
Attributable to:			
Shareholders of Parent entity		11 849	66 520
Non-controlling interest		777	1 515

(Data in PLN thousand, unless indicated otherwise)

CONSOLIDATED BALANCE SHEET

	Note	31.12.2017 Audited	31.12.2016 Audited
ASSETS			
Non-current assets		**731 454**	**721 725**
Tangible non-current assets	22	266 853	247 489
Intangible assets	25	53 753	55 291
Goodwill from consolidation	24	327 996	337 855
Investment properties	23	20 097	21 226
Investments in other units		858	25
Other financial assets	26	44 147	46 502
Deferred tax assets	19.3	9 836	10 707
Prepayments	28	7 914	2 630
Current assets		**710 826**	**675 008**
Inventory	29	94 027	75 861
Trade and other receivables	30	324 094	399 586
Income tax receivables		9 642	-
Other financial assets	26	14 859	8 660
Cash and cash equivalents	31	112 184	148 799
Prepayments	28	9 233	6 019
Construction contracts and advances paid towards contracts being performed	32	146 787	36 083
TOTAL ASSETS		**1 442 280**	**1 396 733**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of Parent entity	34	**756 979**	**771 137**
Share capital		41 120	41 120
Share premium		309 984	309 984
Revaluation reserve		5 765	5 765
Other capital reserves		361 588	332 659
Retained earnings		31 429	54 685
Foreign exchange differences on translation of foreign operations		7 093	26 924
Non-controlling interest	35	**5 055**	**4 830**
Total equity		**762 034**	**775 967**
Long-term liabilities		**116 953**	**153 550**
Interest-bearing loans and borrowings	38	87 661	100 666
Provisions	36	11 917	27 650
Liabilities due to employee benefits	37	5 127	11 134
Provision for deferred tax	19.3	7 810	8 068
Derivative financial instruments	40	4 351	5 957
Other financial liabilities		87	75
Short-term liabilities		**563 293**	**467 216**
Interest-bearing loans and borrowings	38	28 538	22 003
Trade and other liabilities	41	335 049	309 988
Provisions	36	14 179	35 353
Liabilities due to employee benefits	37	12 762	11 424
Income tax liabilities		-	4 922
Derivative financial instruments	40	960	1 018
Accruals	44	416	361
Construction contracts and advances received towards contracts being performed	32	171 347	80 432
Advances received towards flats	45	42	1 715
Total equity and liabilities		**1 442 280**	**1 396 733**

(Data in PLN thousand, unless indicated otherwise)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31.12.2017 Audited	31.12.2016 Audited
Cash flows from operating activities			
Gross profit from continued operations		**33 127**	**67 331**
Adjustments for:		**23 754**	**(106 749)**
Depreciation		28 951	23 418
FX differences		(615)	837
Net interest and dividends		5 790	5 497
Profit on investment activities		(3 956)	(1 445)
Share of profits of entities consolidated using equity method		-	(248)
Change in receivables		92 673	(142 446)
Change in inventory		(18 856)	10 185
Change in liabilities, excluding loans and borrowings		28 970	22 744
Change in prepayments and accruals		(30 437)	(536)
Change in provisions		(35 586)	27 799
Change in construction contracts and advances towards contracts being performed		(25 632)	(46 940)
Change in financial derivatives		(1 296)	892
Income tax paid		(10 552)	(10 919)
Other		707	606
Foreign exchange differences on translation of foreign operations		(6 407)	3 807
Net cash flows from operating activities		**56 881**	**(39 418)**
Cash flows from investment activities			
Sale (purchase) of intangible assets and tangible non-current assets		(34 598)	(20 587)
- acquisition		(43 285)	(36 955)
- sale		8 687	16 368
Sale (acquisition) of shares and stocks		(851)	(21 272)
- acquisition		(851)	(21 272)
Financial assets		(2 897)	10 608
- sold or repaid		15 303	15 980
- granted or acquired		(18 200)	(5 372)
Loans		(210)	-
- repaid		(210)	-
Interest received		161	284
Net cash flows from investment activities		**(38 395)**	**(30 967)**
Cash flows from financial activities			
Proceeds on account of taken borrowings and loans		5 187	33 146
Repayment of borrowings and loans		(13 457)	(33 269)
Dividends paid to shareholders of parent company		(25 700)	(17 476)
Dividend paid to non-controlling interests		(555)	(580)
Interest paid		(6 593)	(6 226)
Payment of liabilities under financial lease agreements		(11 370)	(9 842)
Other		(186)	(325)
Net cash flows from financial activities		**(52 674)**	**(34 572)**
Total net cash flows		**(34 188)**	**(104 957)**
Net FX differences		-	-
Cash at start of period		**146 360**	**251 317**
Cash at end of period	**31**	**112 172**	**146 360**

Cash excluded from the statement of cash flows as at December 31, 2017 comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.

(Data in PLN thousand, unless indicated otherwise)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of Parent entity										
	Share capital	Share premium	Revaluation reserve	Other reserve capitals			Foreign exchange differences on translation	Retained earnings	Total	Non-controlling interest	Total equity
				Hedging instruments	Actuarial gains/ (losses)	Results from previous years					
As at 1.01.2017	**41 120**	**309 984**	**5 765**	**(4 162)**	**(404)**	**337 225**	**26 924**	**54 685**	**771 137**	**4 830**	**775 967**
Corrections of errors	-	-	-	-	-	-	-	-	-	-	-
Changes of accounting standards	-	-	-	-	-	-	-	-	-	-	-
As at 1.01.2017 after adjustments	**41 120**	**309 984**	**5 765**	**(4 162)**	**(404)**	**337 225**	**26 924**	**54 685**	**771 137**	**4 830**	**775 967**
Net profit for the period	-	-	-	-	-	-	-	31 429	31 429	614	32 043
Other comprehensive income	-	-	-	822	(571)	-	(19 831)	-	(19 580)	163	(19 417)
Distribution of profit	-	-	-	-	-	28 985	-	(28 985)	-	-	-
Dividend payment to Shareholders of the Parent Company	-	-	-	-	-	-	-	(25 700)	(25 700)	-	(25 700)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(556)	(556)
Other	-	-	-	-	-	(307)	-	-	(307)	4	(303)
As at 31.12.2017 Audited	**41 120**	**309 984**	**5 765**	**(3 340)**	**(975)**	**365 903**	**7 093**	**31 429**	**756 979**	**5 055**	**762 034**

(Data in PLN thousand, unless indicated otherwise)

	Equity attributable to shareholders of Parent entity										
	Share capital	**Share premium**	**Revaluation reserve**	**Other reserve capitals**			**Foreign exchange differences on translation of foreign operations**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Audited				**Hedging instruments**	**Actuarial gains/ (losses)**	**Results from previous years**					
As at 01.01.2016	**41 120**	**309 984**	**6 178**	**(3 598)**	**(1 363)**	**304 746**	**15 071**	**50 203**	**722 341**	**3 950**	**726 291**
Net profit for the period	-	-	-	-	-	-	-	54 685	54 685	1 647	56 332
Other comprehensive income	-	-	(413)	(564)	959	-	11 853	-	11 835	(132)	11 703
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(580)	(580)
Distribution of profit	-	-	-	-	-	32 727	-	(32 727)	-	-	-
Divident payment	-	-	-	-	-	-	-	(17 476)	(17 476)	-	(17 476)
Other comprehensive income	-	-	-	-	-	(248)	-	-	(248)	(55)	(303)
As at 31.12.2016 Audited	**41 120**	**309 984**	**5 765**	**(4 162)**	**(404)**	**337 225**	**26 924**	**54 685**	**771 137**	**4 830**	**775 967**

NOTES

1. General information

These consolidated financial statements of the Group cover the financial year ended December 31, 2017 and the comparable data.

Trakcja Group ("Group") consists of the Parent Company, namely Trakcja PRKiI S.A. ("Trakcja PRKiI", "Parent Company" or "Company"), its subsidiaries and a company classified as a joint venture until December 30, 2016 according to IFRS 11 (see: Note 2).

Trakcja PRKiI in its present form was established on November 30, 2004 as a result of the acquisition of Trakcja Polska S.A. by Przedsiębiorstwo Kolejowych Robót Elektryfikacyjnych S.A. ("PKRE S.A."). The name of the Company at the time was Trakcja Polska S.A. and was changed by Resolution No. 2 adopted by the Extraordinary General Meeting on November 22, 2007. The change was entered in the National Court Register on December 10, 2007. The prior business name of the Company was Trakcja Polska - PKRE S.A. The Company operates under the Articles of Association in the form of a notarial deed of January 26, 1995 (Rep. A No. 863/95), as amended.

On September 1, 2009 the District Court of the City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, registered the merger of Trakcja Polska S.A. as the acquiring company with Przedsiębiorstwo Robót Komunikacyjnych-7 S.A. as the company being acquired. The merger was settled and recognised in the accounting records of the company, to which the assets of the merged companies were allocated, i.e. Trakcja Polska S.A., under the pooling of interest method, as at August 31, 2009. The companies were effectively merged at the acquisition of control, i.e. on September 1, 2007, in accordance with IFRS 3.

On June 22, 2011 the District Court of the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, registered a change in the company name from Trakcja Polska S.A. to Trakcja – Tiltra S.A. The above change was registered pursuant to Resolution No. 3 adopted by the Company's Extraordinary General Meeting on November 27, 2013.

On December 21, 2012 the District Court of the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, registered a change in the Company's business name from Trakcja – Tiltra S.A. to Trakcja S.A. The above change was registered pursuant to Resolution No. 3 adopted by the Extraordinary General Meeting of Shareholders on December 12, 2012.

On December 19, 2013 the District Court of the City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, registered the merger of Trakcja S.A. as the acquiring company with Przedsiębiorstwo Robót Kolejowych i Inżynieryjnych S.A. as the company being acquired. The merger was settled and recognised in the accounting records of the company to which the assets of the merged companies were allocated, i.e. Trakcja S.A., according to the pooling of interest method, as at December 31, 2013.

On December 19, 2013 the District Court of the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, registered a change in the Company's business name from Trakcja S.A. to Trakcja PRKiI S.A. The above change was registered pursuant to Resolution No. 4 adopted by the Extraordinary General Meeting of Shareholders on November 27, 2013.

On January 29, 2002 the Company was entered in the National Court Register by the District Court in Warsaw, 19th Commercial Division, under KRS 0000084266. The Company was assigned the statistical number REGON 010952900, the tax identification number NIP 525-000-24-39 and the PKD code 4212Z.

The registered office of the Parent Company is located at ul. Złota 59 in Warsaw. Both the Parent Company and the entities that are members of the Group are established for an indefinite period of time.

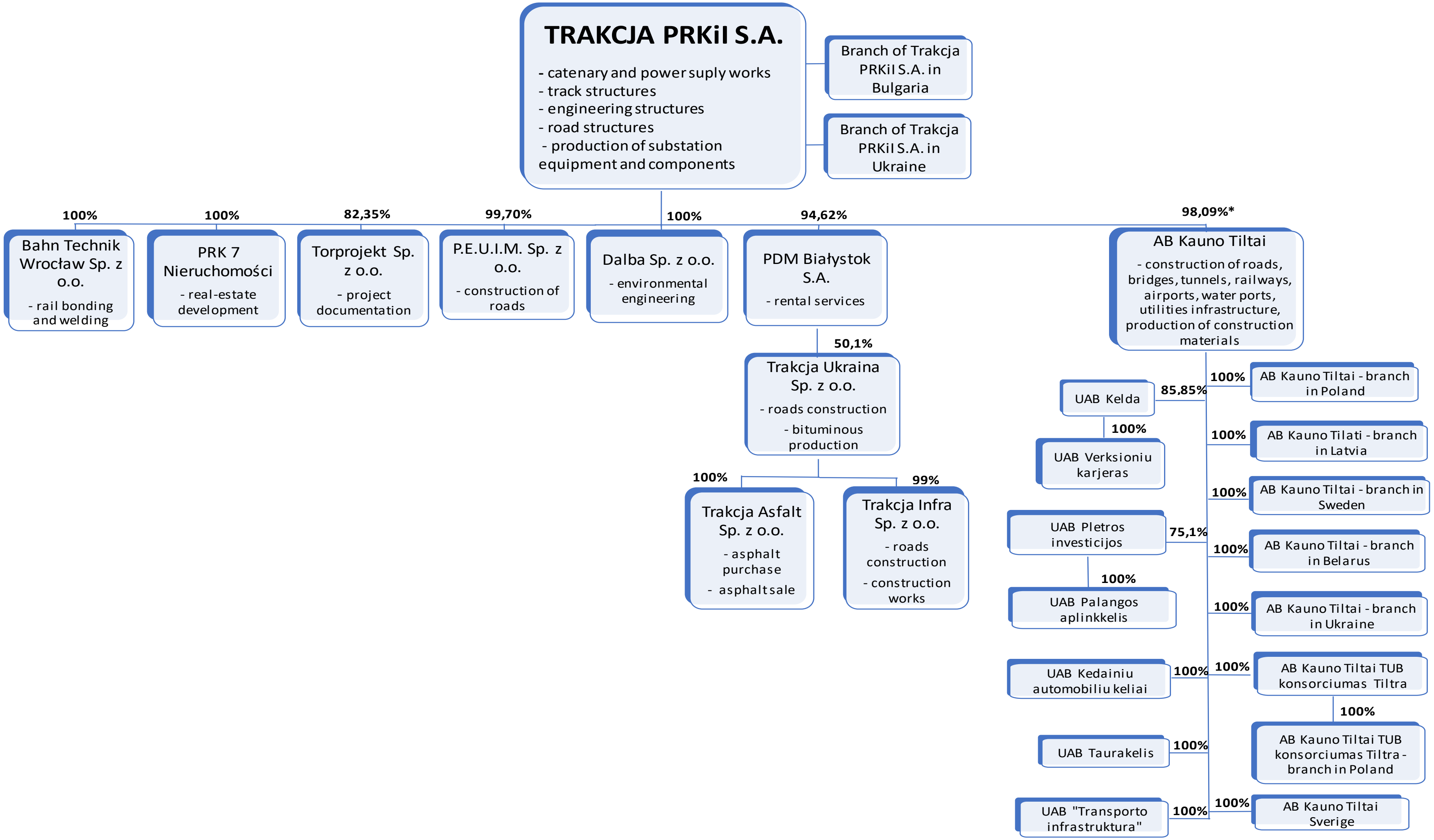
According to the Articles of Association, the Parent Company renders specialist construction and assembly services within the scope of railway and tram lines electrification. The Company specialises in the following types of activity:

- foundation and network works,
- installation of traction substations and section cabs,
- installation of high and low voltage overhead and cable lines,

- installation of local supply and control cables,
- manufacturing of products (high, medium and low voltage switching stations, contact line equipment and local control devices),
- specialist equipment services (excavators, railway and truck cranes, boring rigs, pile drivers),
- construction of bridges, viaducts, piers, flyovers, tunnels, underground passes, roads and accompanying elements of rail and road infrastructure.

2. Group members

Trakcja PRKiI is the Parent Company of Trakcja Group. The Group's composition and structure as at December 31, 2017 is presented in the diagram below.



**) Trakcja PRKiI holds a total of 98.09% (96.84% directly and 1.25% indirectly) of the share capital of AB Kauno Tiltai. The indirect shareholding results from the acquisition of own shares by the subsidiary.*

As at December 31, 2017 the Group consists of the Parent Company (Trakcja PRKiI) and its subsidiaries.

Fully-consolidated entities:

PRK 7 Nieruchomości Sp. z o.o.

PRK 7 Nieruchomości Sp. z o.o. carries out real estate development activities and has a track record of several successful investment projects, which include, in particular, Lazurowe Osiedle residential project in Warsaw (stage I and II) and the project at ul. Oliwska in Warsaw, as well as the construction of five multi-family residential buildings in Warsaw at ul. Pełczyńskiego. The Company implements a project consisting in the construction of terraced houses located at ul. Oliwska in Warsaw.

Torprojekt Sp. z o.o.

Torprojekt Sp. z o.o. with its registered office in Warsaw was established in 2009. The company specialises in preparing comprehensive project documentation, including feasibility studies, concepts, basic designs, also construction designs, tender documents and detailed designs in the following areas: railway lines, stations, nodes, passenger stops and loading points, bridges, overpasses, railway traffic control devices, buildings and structures, including technology, etc.

Bahn Technik Wrocław Sp. z o.o.

On December 31, 2016 Trakcja PRKiI became the sole shareholder in Bahn Technik Wrocław Sp. z o.o. (“BTW”). The transaction details are provided in Note 3.1. Until December 31, 2016 the Group exercised joint control over BTW and classified the company as a joint venture pursuant to IFRS 11.

The BTW’s business activities include thermite welding, repairing and renovating turnouts, renovating railway and tramway crossings, providing pre-stressed, glued insulation joints type S, welding tram and railway tracks, tamping and profiling railway and tramway tracks, and selling Perker SR rail lubrication systems. In addition, since December 2016, BTW has had a GOTTWALD crane and a DGS track stabilizer. BTW renders its services both in Poland and abroad.

Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o. (“PEUiM”)

PEUiM operates in the road construction sector and its business activities are concentrated in the north-east of Poland. The company was established in Białystok in 1960. PEUiM specialises in the construction of roads and pavements, and in the installation of signalling and safety devices to secure the roads. The company also manufactures bituminous mass, concrete and other building materials.

Dalba Sp. z o.o.

Dalba Sp. z o.o. is a company with its registered office in Białystok, whose activities involve the performance of engineering works, mainly, during the construction of sanitary infrastructure, roads and streets.

PDM Białystok S.A.

PDM Białystok S.A. is a company with its registered office in Białystok. It provides equipment, premises and tool rental services to external companies and supplies PEUiM with materials.

Establishment of Trakcja PRKiI S.A. in Bulgaria

On March 29, 2016 Trakcja PRKiI S.A. opened an establishment in Bulgaria.

AB Kauno Tiltai Group

AB Kauno Tiltai is the largest company in the road and bridge construction sector in the Baltic countries. It specialises in the construction and reconstruction of roads, bridges, tunnels, railways, airports, water ports, which is demonstrated, inter alia, by the fact that since its establishment, i.e. since 1949, AB Kauno Tiltai has constructed over 100 bridges and viaducts and has been responsible for constructing and reconstructing numerous roads in Lithuania.

AB Kauno Tiltai with its registered office in Kaunas is a subsidiary of the Parent Company, Trakcja PRKiI, and simultaneously the parent company in AB Kauno Tiltai Group.

AB Kauno Tiltai Group is composed of the following entities:

- UAB Kelda – a subsidiary with registered office in Vievis (Lithuania); the company's subsidiary is:
  - UAB Verksioniu karjeras – a subsidiary with its registered office in Bagoteliu K (Lithuania);
- UAB Taurakelis – a subsidiary with its registered office in Tauragé (Lithuania);
- UAB Kedainiu Automobiliu Keliai – a subsidiary with its registered office in Kédainiai (Lithuania);
- TUB Konsorciumas Tiltra – a subsidiary with its registered office in Kaunas (Lithuania);
- UAB Pletros investicijos – a subsidiary with its registered office in Vilnius (Lithuania);
- UAB Palangos aplinkkelis – a subsidiary with its registered office in Vilnius (Lithuania) established to perform contracts in the framework of public-private partnerships;
- AB Kauno Tiltai Branch in Poland – a branch of AB Kauno Tiltai with its registered office in Białystok (Poland);
- AB Kauno Tiltai Branch in Latvia – a branch of AB Kauno Tiltai with its registered office in Rēzekne (Latvia);
- AB Kauno Tiltai Branch in Belarus – a branch of AB Kauno Tiltai with its registered office in Minsk (Belarus);
- AB Kauno Tiltai Branch in Sweden – a branch of AB Kauno Tiltai with its registered office in Norsborg (Sweden);
- AB Kauno Tiltai Sverige – a subsidiary with its registered office in Malmö (Sweden);
- UAB Transporto infrastruktura – a subsidiary with its registered office in Vilnius (Lithuania).

Trakcja Group includes also subsidiaries established in 2017 and with registered offices in Ukraine: Trakcja Ukraina Sp. z o.o., Trakcja Infra Sp. z o.o., Trakcja Asfalt Sp. z o.o., an establishment of Trakcja PRKiI S.A. in Ukraine and a branch of AB Kauno Tiltai in Ukraine. Due to fact that the Ukrainian companies have an insignificant impact on the Group’s performance, their data is not disclosed by the Group.

The ultimate parent company is COMSA S.A., a Spanish company, which prepares the consolidated financial statements that include, among many, the data of Trakcja Group.

3. Changes in the Group

In the period from January 1, 2017 to December 31, 2017, there were changes made to the composition and structure of Trakcja Group. On February 9, 2017 a subsidiary was established under a business name of ТРАКЦІЯ УКРАЇНА (Trakcja Ukraina Sp. z o.o.) and with its registered office in Dnipro (Ukraine), whose majority shareholder is PDM Białystok S.A., and on March 3, 2017 Trakcja PRKiI established a branch of its company in Ukraine. Trakcja Ukraina Sp. z o.o. has two subsidiaries: Trakcja Infra Sp. z o.o. and Trakcja Asfalt Sp. z o.o. AB Kauno Tiltai opened an establishment with its registered office in Kiev (Ukraine) on June 22, 2017. Due to fact that the Ukrainian companies have an insignificant impact on the Group’s performance, their data is not disclosed by the Group.

3.1. Information on acquisition of 50% of shares in Bahn Technik Wrocław Sp. z o.o.

On November 10, 2016 Trakcja PRKiI S.A. (purchaser) and Leonard Weiss International GmbH (seller), a then shareholder in Bahn Technik Wrocław Sp. z o.o., entered into a conditional share purchase agreement. (“BTW”). The agreement covered the acquisition of 50% of shares (i.e. 4,000 shares) in BTW with a par value of PLN 500 each share for the total price of PLN 21 500 thousand for all the shares purchased. The acquisition of shares was financed with a 5-year investment loan of PLN 21 500 thousand. On December 21, 2016 the issuer obtained the consent of the President of UOKiK [Competition and Consumer Protection Office], and on December 30, 2016 the ownership right was transferred to Trakcja PRKiI S.A.

(Data in PLN thousand, unless indicated otherwise)

Trakcja PRKiI had so far held 50% of shares in BTW. Under the agreement concluded, the Issuer has become the sole shareholder in BTW. BTW performs rail works, including welding, regeneration of turnouts and assembly of railway tracks in Poland. BTW is well-equipped with specialised machinery for rail and track works. Having acquired full control over BTW, the Group will be able to strengthen its position on the railway construction market owing to access to the BTW's specialised equipment. That will enhance the Group's competitiveness and independence.

Until December 30, 2016 BTW was classified as a joint venture pursuant to IFRS 11, and consolidated under the equity method. It is recognised that the Company gained full control over BTW on December 30, 2016.

Analysis of BTW assets and liabilities as at acquisition of control

	Fair value as at the acquisition date
Non-current assets	**29 734**
Tangible non-current assets	29 192
Intangible assets	24
Deferred tax assets	518
Current assets	**12 877**
Inventory	607
Trade and other receivables	11 888
Cash and cash equivalents	228
Accruals	155
Long-term liabilities	**3 267**
Interest-bearing loans and borrowings	504
Provision for deferred tax	2 763
Short-term liabilities	**4 951**
Interest-bearing loans and borrowings	588
Trade and other liabilities	3 462
Provisions	657
Liabilities due to employee benefits	245
Net assets	**34 394**

Goodwill originated from the acquisition of full control over BTW and the recognition of a gain from remeasuring the already held shares to fair value – final settlement of transaction

Having finally settled the acquisition of full control over BTW, the Group recognised goodwill in the amount of PLN 8 606 thousand (31.12.2016: PLN 8 606 thousand; no changes in relation to the initial recognition) in the consolidated balance sheet as at December 31, 2017. When measuring the goodwill, the Group remeasured the already held shares to fair value, and the gain thereon in the amount of PLN 7 112 thousand was recognised as other operating revenues in the consolidated income statement for 2016.

Goodwill recognised as a result of the acquisition of full control over BTW:

	31.12.2016 Audited
Payment transferred (fair value)	21 500
Previously owned by Trakcja PRKiI, 50% of shares (fair value)	21 500
Fair value of identified net assets (-)	(34 394)
The goodwill generated by taking control	**8 606**

(Data in PLN thousand, unless indicated otherwise)

The aforementioned goodwill is allocated to the cash-generating unit that consists of the following companies: Trakcja PRKiI, Torpojekt Sp. z o.o. and BTW.

Gain on remeasuring to fair value of the shares already held by Trakcja PRKiI in BTW (50%) recognised in the Group's consolidated profit or loss for 2016:

	31.12.2016 Audited
Fair value of held 50% of shares in BTW	21 500
Book value of owned 50% shares of BTW (-)	(14 388)
Profit / (loss) due to revaluation of shares	**7 112**

Effect of the acquisition of full control over BTW on the Group's performance

In the financial year ended at December 31, 2016 the Group consolidated the BTW's data under the equity method, recognising the 50%-share in the net profit generated by BTW for 2016 as a separate item in the consolidated income statement (details in Note 27 hereof). Due to the fact that the acquisition of full control over BTW was gained as at December 31, 2016, i.e. at the end of the reporting period, the Group did not recognise any revenues or any profit as a result of consolidation of BTW.

If the acquisition of BTW took place on January 1, 2016 the Group's revenues from the continued operations would be PLN 1 407 798 thousand (an increase by PLN 26 625 thousand as compared to the published financial data of the Group), and the net profit on the continued operations for 2016 would be PLN 56 580 thousand (an increase by PLN 248 thousand as compared to the published financial data of the Group).

4. Parent Company's Management Board

As at December 31, 2017 the Parent Company's Management Board was composed of the following members:

- Jarosław Tomaszewski – President of the Management Board;
- Marek Kacprzak – Vice-President of the Management Board;
- Paweł Nogalski – Vice-President of the Management Board;
- Maciej Sobczyk – Vice-President of the Management Board;
- Aldas Rusevičius – Vice-President of the Management Board.

In the period from January 1, 2017 to December 31, 2017 the Management Board of the Parent Company was changed as detailed below.

On September 14, 2017 the Company' Supervisory Board passed a resolution appointing Mr. Maciej Sobczyk as the Vice-President of the Management Board with effect from September 14, 2017.

On November 30, 2017 the Company' Supervisory Board passed a resolution appointing Mr. Aldas Rusevičius as the Vice-President of the Company's Management Board with effect from November 30, 2017.

On March 9, 2018 the Company was notified that Jarosław Tomaszewski resigned from the position held on the Company's Management Board. The resignation was submitted with effect from June 30, 2018.

No other changes have been made to the composition of the Parent Company's Management Board after the balance sheet date.

5. Supervisory Board

As at December 31, 2017 the Parent Company's Supervisory Board was composed of the following members:

- Dominik Radziwiłł – Chairman of the Supervisory Board;

- Łukasz Rozdeiczer-Kryszkowski – Member of the Supervisory Board;
- Michał Hulbój – Member of the Supervisory Board;
- Wojciech Napiórkowski – Member of the Supervisory Board;
- Miquel Llevat Vallespinosa – Member of the Supervisory Board;
- Jorge Miarnau Montserrat – Member of the Supervisory Board;
- Fernando Perea Samarra – Member of the Supervisory Board.

Both in the analysed period and after the balance sheet date there have been no changes to the composition of the Parent Company's Supervisory Board.

6. Approval of the consolidated annual financial statements for publication

These consolidated annual financial statements were approved for publication by the Management Board of the Parent Company on March 28, 2018.

7. Significant values based on professional judgement, estimates and assumptions

In applying the accounting principles (policy) such factors as accounting estimates, assumptions and professional judgement of the entity's management are important. The assumptions and estimates made are based on the past experience and on factors considered reasonable, and their results are a basis for the professional judgement on the carrying amounts of the relevant assets and liabilities. The estimates and assumptions related thereto are verified as at the balance sheet date. Despite the fact that the estimates are based on the best knowledge regarding the current conditions and operations performed by the Group, the actual performance may differ from the estimates.

If a given transaction is not regulated by any standard or interpretation, the Management Board uses its considerable judgement in developing and applying accounting policies that result in the data included in the financial statements being relevant and faithful and in the financial statements:

- representing truly, clearly and fairly the Group's assets and financial position, as well as its financial performance and cash flows,

- reflecting the economic substance of transactions,

- being neutral,

- being prudent, and

- being complete in all material respects.

Please find below the professional judgement of the management and the assumptions concerning the future and also other key sources of uncertainties present at the balance sheet date, which have a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities within the next financial year.

7.1. Professional judgement

Fair value of financial instruments

If the market for financial instruments is not active, their fair value is established by using relevant measurement techniques. When selecting methods and assumptions, the Group follows the professional judgement. The assumptions made for this purpose are presented in Note 47 of the Notes. In 2017 the Company did not change the measurement method for financial instruments measured at fair value. The carrying amounts of financial assets and liabilities are close to their fair values.

Classification of leases

The Group classifies a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. This depends on the economic substance of each transaction. For additional information please refer to Note 9.3.4, Note 42 and Note 43.

Investment properties

The Group classifies a property as a tangible non-current asset or an investment property depending on its intended use.

Allocation of goodwill to cash generating units

Pursuant to IAS 36, goodwill is allocated to cash generating units. The Group performs tests related to the allocation of goodwill to the appropriate cash generating units.

Control over the related entities

The Parent Company exercises control over the related entities, if it is exposed or has rights to variable returns from its involvement and when it is in a position to use its powers over an entity to exert an effect on such returns. The Parent Company's Management Board states that it exercises control over individual entities based on the following:

Trakcja PRKiI is the sole shareholder in PRK 7 Nieruchomości Sp. z o.o. and has control over the subsidiary. Trakcja PRKiI has become the shareholder in PRK 7 Nieruchomości as a result of the merger between Trakcja and PRK 7 S.A. which in turn owned PRK 7 Nieruchomości Sp. z o.o.

Trakcja PRKiI holds 100% of shares in Bahn Technik Wrocław Sp. z o.o. and has full control over the subsidiary. Trakcja PRKiI S.A. has become the shareholder in BTW through the acquisition of the remaining 50% of shares therein on December 30, 2016.

Trakcja PRKiI holds 82.35% of shares in Torprojekt Sp. z o.o. and has full control over the subsidiary. Trakcja PRKiI has become the owner of Torprojekt through the acquisition of its shares.

Trakcja PRKiI holds 99.70% of shares in P.E.U.I.M. Sp. z o.o. and has full control over the subsidiary. Trakcja PRKiI has become the owner of P.E.U.I.M. through the acquisition of shares.

Trakcja PRKiI holds 100% of shares in Dalba Sp. z o.o. and has full control over the subsidiary. Trakcja PRKiI has become the owner of Dalba through the acquisition of its shares.

Trakcja PRKiI holds 94.62% of shares in PDM Białystok S.A. and has full control over the subsidiary. Trakcja PRKiI has become the owner of PDM Białystok through the acquisition of its shares.

Trakcja PRKiI holds 98.09% of shares in AB Kauno Tiltai and has control over the subsidiary. Trakcja PRKiI has become the shareholder in AB Kauno Tiltai through the acquisition of shares therein. AB Kauno Tiltai is also the parent company in AB Kauno Tiltai Group. The Group's composition and shareholdings are presented in Note 2 of the Notes which describes the Group's composition and structure.

From December 30, 2016 Trakcja PRKiI holds 100% of shares in Bahn Technik Wrocław Sp. z o.o. and has full control over the subsidiary. Trakcja PRKiI has become the owner of BTW through the acquisition of shares. This transaction is described in detail in Note 3.1 hereof.

Classification of joint contractual arrangements

The Group verifies whether it exercises joint control and determines the type of joint arrangement in which it is involved by considering its rights and obligations under a given arrangement and the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangement and other facts and circumstances. Until the acquisition of control over BTW, i.e. until December 30, 2016, the Group classified the shares in Bahn Technik Wrocław Sp. z o.o. as a joint venture in accordance with IFRS 11.

7.2. Uncertainty in estimates and assumptions

Recognition of revenues

If the completion of a construction contract can be estimated reliably, revenues from a construction contract that is in progress in the period from the conclusion thereof to the balance sheet date, less any revenues that have had effect on the financial performance in the preceding financial years, are recognised by reference to the degree of progress in its completion. The Group's companies measure the progress in completion thereof by reference to the costs incurred from the conclusion of a given contract to the recognition of revenues in the total contract completion costs. For contracts concluded in foreign currency, sales revenues depend on the fluctuations of the currency exchange rates.

Provisions for additional works

Provisions for additional works are estimated based on the knowledge of the construction site (contract) directors with regard to the required or potential performance of additional works for the benefit of the contracting entity, in order to fulfil warranty obligations. The largest companies that are members of Trakcja Group are obliged to grant warranty for their services. The provision for additional works depends on the segment in which the companies operate and is based on the Group's historical data. They are subject to individual review and may be increased or decreased when necessary. Any change in the estimates made affects the value of the provisions. The carrying amount of the provisions for additional works as at December 31, 2017 is presented in Note 36 of the Notes.

Provisions for contractual penalties

The Group recognises provisions for contractual penalties in relation to any contracts under completion in the amounts in which they may and are likely to be imposed. Provisions are recognised based on the documentation regarding the contract completion and on the opinion of lawyers who participate in the ongoing negotiations and estimate the Group's potential future liabilities on the basis of their course. The carrying amount of the provisions for contractual penalties as at December 31, 2017 is presented in Note 36 and Note 32 of the Notes.

Measurement of employee benefit liabilities

Employee benefit liabilities for retirement benefits and jubilee bonuses in the current period are estimated on the basis of actuarial methods which take into account amendments to the remuneration regulations made on June 3, 2017. The amount of liability depends on various factors which are used as assumptions in the actuarial method. Key assumptions for determining the amount of liability are a discount rate and an average expected increase in wages. The assumptions made and the carrying amount of employee benefit liabilities as at December 31, 2017 are presented in Note 37 of the Notes.

Deferred tax assets

The Group recognises a deferred tax asset assuming that in the future a taxable profit is generated that will allow for its use. Any deterioration in the future taxable profits may result in the assumption becoming unjustified. The Parent Company's Management Board verifies the estimated recoverability of deferred tax assets on the basis of changes in the factors taken into account, new information and past experiences. The likelihood that deferred tax assets will be settled against future taxable profits is based on the Group's forecast. The Group members recognise deferred tax assets up to the amount corresponding to the likely amount of future taxable profit that will allow for negative temporary differences to be deducted. The Group's companies, which generated losses in the past and whose financial forecast does not project future taxable profits that would allow for negative temporary differences to be deducted, do not recognise any deferred tax assets in their books. The carrying amount of the deferred tax assets as at December 31, 2017 is presented in Note 19.3 of the Notes.

Depreciation and amortisation rates

Depreciation and amortisation rates are determined on the basis of the expected economic useful lives of tangible non-current assets and intangible assets. Every year the Group reviews the adopted economic useful lives using current estimates.

Investment properties

Investment properties are measured at fair value. The value of investment properties is determined by independent appraisers that hold valid authorisations to perform such valuations. In selecting the approach and technique thereof, the Company followed the principles set forth in IFRS 13 and in the provisions of the Real Estate Management Act and the Regulation of the Council of Ministers on the detailed principles of property appraisal and rules and method for preparing appraisal reports. Fair value of investment properties is measured by way of applying measurement techniques that require a maximum use of observable data. The detailed information and carrying amount of the investment properties as at December 31, 2017 is provided in Note 23 of the Notes.

Goodwill impairment

Pursuant to IAS 36, cash-generating units to which goodwill has been allocated are tested for impairment annually by the Parent Company's Management Board. The tests performed consist in the estimation of the value in use of cash generating units ("CGU") on the basis of future cash flows generated by such units, which are next adjusted to their present value with the use of a discount rare. Goodwill was tested for impairment as at December 31, 2017. Assumptions and essential information on the tests performed are provided in Note 24 of the Notes. As a result of the tests performed no goodwill impairment loss was recognised as at December 31, 2017.

Write-downs of inventories

The Management Board assesses whether there are any indications that inventories may need to be written down in accordance with Note 9.12. For that purpose, the Company estimates the net realisable value of those inventories that lost their functional properties or are no longer useful. Additional information is provided in Note 29 of the Notes.

Impairment of trade receivables and other receivables

The Management Board assesses whether there are any indications that trade or other receivables may need to be impaired. The value of receivables is verified, taking into account the degree of probability of their payment, by way of recognising an impairment loss. Impairment losses depend on the likelihood of collection and the detailed analysis of key components of receivables. Depending on the type of customer and the source of receivables, the recoverability of receivables is assessed either on the basis of an individual analysis of individual receivables or on the basis of the statistical recoverability ratios estimated for collective receivables grouped by age. Recoverability ratios are calculated based on the past recoverability and customer behaviour, including also other factors which in the opinion of the Management Board may affect the recoverability of the current accounts receivable. Detailed information is provided in Note 30 of the Notes.

Fair value and its measurement

Some assets and liabilities of the Group are measured at fair value for the purposes of financial reporting. The Group measures the fair value of assets or liabilities, to the extent possible, on the basis of the market data observable.

Information on measurement techniques and input data used for measuring the fair value of individual assets and liabilities is disclosed in Note 23, Note 40 and Note 47 of the Notes.

8. Basis for preparing the consolidated annual financial statements

The consolidated annual financial statements were drawn up in accordance with the historical cost principle, except for the financial derivatives and investment properties which are measured at fair value.

The consolidated annual financial statements are presented in Polish zlotys ("PLN") and all amounts are expressed in thousands of Polish zlotys, unless indicated otherwise.

Certain financial data provided herein is rounded. Therefore, the sum of the amounts in a given column or row in certain tables provided herein may differ slightly from the total amount given for such a column or row.

The consolidated annual financial statements are prepared on the assumption that the Group remains a going concern in the foreseeable future. As at the approval hereof, there are no circumstances that could indicate that any threats exist to the Group as a going concern.

In addition, for the purposes of financial reporting, the measurements at fair value are categorised according to three levels, depending on the degree in which the input data for measurement of fair value is observable and on the significance of the input data for measurement to fair value as a whole. These levels are as follows:

- Level 1: the input data are prices listed (unadjusted) on the active markets for identical assets or liabilities to which the entity has access as at the measurement date.

- Level 2: the input data are any data other than the prices categorised to Level 1, which are observable for a given asset or liability, directly or indirectly.

- Level 3: the input data are unobservable data for measurement of a given asset or liability.

8.1. Statement of compliance

The consolidated annual financial statements for the period from January 1, 2017 to December 31, 2017 were prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union, published and applicable as at December 31, 2017.

Any standards other than those that were in force as at December 31, 2017 and were approved by the EU as at the preparation hereof are described in Note 10.

The IFRS include standards and interpretations approved by the International Accounting Standards Board and the IFRS Interpretations Committee.

Measurement currency and currency of the financial statements

The Polish zloty is the measurement currency of the Parent Company and those of the companies within the Group that are located in Poland, as well as the reporting currency herein. Measurement currencies of the Group's companies that operate abroad are as follows:

- the euro (EUR) for the companies with their registered offices in Lithuania;

- the Swiss crown (SEK) for AB Kauno Tiltai Sverige and a branch of AB Kauno Tiltai in Sweden with their registered offices in Sweden;

- the Belarusian rouble (BYR) for a branch of AB Kauno Tiltai in Belarus;

- the Bulgarian lev (BYN) for the establishment of Trakcja PRKiI in Bulgaria;

- the Ukrainian hryvnia (UAH) for the establishment of Trakcja PRKiI and for a branch of AB Kauno Tiltai in Ukraine.

9. Significant accounting principles

9.1. Principles of consolidation

The consolidated financial statements include the financial statements of Trakcja PRKiI S.A. and the financial statements of its subsidiaries drawn up as at December 31 each year.

The subsidiaries are consolidated from the acquisition of control over them by the Group to the cessation of such control. If the Parent Company loses control over a subsidiary, the consolidated financial statements include the subsidiary's data for a part of the year covered by the statements, in which the Group has such control.

Trakcja Group includes also subsidiaries established in 2017 and with registered offices in Ukraine: Trakcja Ukraina Sp. z o.o., Trakcja Infra Sp. z o.o., Trakcja Asfalt Sp. z o.o., an establishment of Trakcja PRKiI S.A. in Ukraine and a branch of AB Kauno Tiltai in Ukraine. Due to fact that the Ukrainian companies have an insignificant impact on the Group's performance, their data is not disclosed by the Group.

(Data in PLN thousand, unless indicated otherwise)

Financial statements of the subsidiaries are drawn up for the same reporting period as the financial statements of the Parent Company, using consistent accounting principles applied for transactions and business events of a similar nature.

All the Group's members, except for Bahn Technik Wrocław Sp. z o.o., Torprojekt Sp. z o.o., Dalba Sp. z o.o. and PDM Białystok S.A. keep their accounting books in accordance with the International Accounting Standards. Bahn Technik Wrocław Sp. z o.o., Torprojekt Sp. z o.o., Dalba Sp. z o.o. and PDM Białystok S.A. keep their accounting books in accordance with the accounting principles set forth in the Accounting Act of September 29, 1994 ("Act"), as amended, and with the regulations issued thereunder ("Polish Accounting Standards" or "PAS"). Their financial data is converted for the Group's purposes.

All intra-group transactions and balances, including unrealised profits on intra-group transactions, have been completely eliminated. Unrealised losses are eliminated unless they are an impairment indicator.

Non-controlling interests are that portion of the profit or loss and net assets which are not owned by the Group. Non-controlling interests are presented as a separate item in the consolidated income statement and the consolidated statement of comprehensive income and also the consolidated balance sheet (within equity), separately from the equity of the owners of the Parent Company. At the acquisition of non-controlling interests, any difference between the acquisition price and the carrying amount of the non-controlling interest acquired in the net assets is recognised in equity.

9.2. Conversion of items in foreign currency

The Polish zloty is the Parent Company's functional currency.

Transactions expressed in foreign currencies are converted by the companies within the Group into their functional currencies according to the exchange rate applicable as at the date of the transaction concerned.

As at the balance sheet date, any cash assets and liabilities expressed in foreign currencies are converted into Polish zloty using the relevant average exchange rate applicable at the end of the reporting period for a given currency, announced by the National Bank of Poland. Foreign exchange gains and losses arising from such conversion are recognised respectively in the financial revenues and costs.

Non-cash assets and liabilities recognised at cost expressed in foreign currency are disclosed at cost as at the date of the transaction concerned. Non-cash assets and liabilities recognised at fair value expressed in foreign currency are converted into Polish zlotys at the exchange rate as at the measurement at fair value.

The following exchange rates were adopted for the purposes of the balance sheet measurements:

Exchange rate on the reporting date:	31.12.2017	31.12.2016
PLN/USD	3,4813	4,1793
PLN/EUR	4,1709	4,4240
PLN/SEK	0,4243	0,4619
PLN/BYN*	1,7908	2,1589
PLN/BGN	2,1326	2,2619

The average exchange rate, calculated as the arithmetic average of the rates prevailing on the last day of each month during the period:	31.12.2017	31.12.2016
PLN/USD	3,7439	3,9680
PLN/EUR	4,2447	4,3757
PLN/SEK	0,4403	0,4624
PLN/BYN*	1,9495	2,1428
PLN/BGN	2,1703	2,2387

PLN/BYN* – on July 1, 2016 the currency was redenominated from BYR 1 to BYN 1 at the rate of BYN 1 = BYR 10,000.

As at the balance sheet date, the financial statements of foreign entities are converted into Polish currency as follows:

- the relevant balance sheet items – according to the average exchange rate established by the National Bank of Poland as at the balance sheet date, except for the equity items which are converted into Polish currency according to a historic exchange rate published as at the acquisition of control over the foreign entity concerned;
- the relevant items of the income statement and the statement of comprehensive income – according to the exchange rate representing the arithmetical mean of the average monthly exchange rates established by the National Bank of Poland for the period covered by the financial statements;
- the relevant items of the statement of cash flows (investment and financial activities) – according to the exchange rate representing the arithmetical mean of the average monthly exchange rates established by the National Bank of Poland for the period covered by the financial statements. Foreign exchange differences arising from such conversion are recognised in the statement of cash flows as "Foreign exchange differences on translation of foreign operations".

Foreign exchange differences such a conversion are recognised directly in equity as a separate item, i.e. as "Foreign exchange differences on translation of foreign operations".

When a foreign entity is disposed of, the accumulated foreign exchange differences recognised in equity, which relate to the foreign entity concerned, are transferred from the equity to the income statement (as an adjustment resulting from reclassification) as at the recognition of any gain or loss on the disposal thereof.

9.3. Tangible non-current assets

9.3.1. Non-current assets

Non-current assets are measured at cost less any accumulated depreciation and impairment losses. Non-current assets are initially recognised at cost increased by all costs directly related to their purchase and all costs necessary to bring the asset to the working condition for its intended use. This also includes costs of replacing components of machines and equipment, when incurred, if the recognition criteria are met. Any costs incurred after the non-current asset concerned has been put into operation, such as costs of maintenance or repairs, are recognised directly in profit or loss when incurred.

The carrying amount of non-current assets includes any costs of modernisation; however, any costs of regular and significant overhauls which are necessary to prevent failures and whose value differs significantly in individual reporting periods are recognised as prepayments. Any potential carrying amount of the previous overhaul is derecognised from the carrying amount of the non-current asset concerned.

Non-current assets (except for any land other than used for production of minerals by means of an open-cast method) are depreciated using the straight-line method over their expected useful life. Non-current assets held under finance leases are depreciated according to the method determined by the Company for its own non-current assets. However, if the transfer of the ownership title is not certain, non-current assets held under finance leases are depreciated during their expected useful life or their lease term, whichever is shorter.

Any non-current assets which are not accepted for use directly, because they need to be assembled or adapted or have any other additional works carried out or expenses incurred, are recognised as non-current assets under construction until they are accepted for use.

Any non-current assets which are unused, withdrawn from use or intended for disposal or sale are measured at the amount no higher than their realisable net sales price.

Non-current assets are depreciated using the straight-line method. The depreciation rates applied reflect the expected useful life of non-current assets.

The expected useful life of non-current assets adopted by the Group is as follows:

- hardware	3 years or a contractual term,

(Data in PLN thousand, unless indicated otherwise)

- tools and instrumentation	5 years,
- ground containers	22 years,
- boilers and furnaces	from 14 to 25 years,
- metalwork machinery	from 5 to 14 years,
- gas compressors	from 10 to 20 years,
- power generation devices	13 years,
- heavy-duty building machinery	from 5 to 30 years,
- small equipment and machines	10 years,
- technological wagons	from 14 to 25 years,
- storage, workshop and utility wagons	from 14 to 20 years,
- storage and utility containers	from 5 to 25 years,
- passenger vehicles and delivery vehicles (up to 3.5 t)	from 5 to 7 years,
- trucks (above 3.5 t)	from 5 to 10 years,
- office and social facilities	from 10 to 26 years.

The residual value, useful life and depreciation method of non-current assets are reviewed on an annual basis and changed if necessary, where the change made is effective from the beginning of the next financial year.

A non-current asset can be derecognised from the balance sheet on disposal or when no future economic benefits are expected from its further use. Any gain or loss on derecognition of the non-current asset concerned from the balance sheet (calculated as the difference between the potential net sales proceeds and the carrying amount thereof) is recognised in profit or loss for the period, in which the non-current asset is derecognised.

9.3.2. Non-current assets under construction

Non-current assets under construction are measured at the total amount of costs directly related to their acquisition or manufacturing. This also includes any net financial costs relating to the servicing and collateral of the debt incurred (paid or accrued) in relation to non-current assets under construction until they are put into operation.

Any non-current assets under construction which are discontinued or intended for disposal or sale are measured at the amount no higher than their realisable net sales price.

Non-current assets under construction are depreciated no earlier than after their construction has been completed and they have been put into operation.

Any cost of refurbishing is recognised in the carrying amount of the tangible non-current assets, if the recognition criteria are met.

9.3.3. Right of perpetual usufruct of land

The Group has the right of perpetual usufruct of land. The Group classifies the right of perpetual usufruct of land according to the method of acquisition:

- the right of perpetual usufruct of land obtained free of charge based on an administrative decision is recognised as an operating lease in the off-balance sheet.
- the right of perpetual usufruct of land acquired against consideration from third parties or through the acquisition of subsidiaries is recognised as land in the tangible non-current assets at cost less any depreciation. Depreciation is disclosed in the income statement as general and administrative costs.

The right of perpetual usufruct of land is depreciated over the period for which it has been granted. This period is 99 years.

9.3.4. Leases

Finance leases that transfer all the risks and all the benefits related to the item leased to the Group are recognised in the balance sheet as at the lease commencement date at the lower of the fair value of the asset leased or the present value of the minimum lease payments. Lease payments are apportioned between financial costs and a reduction in the outstanding balance of the lease liability in such a manner as to produce a fixed interest rate on the remaining balance of the liability. Financial costs are recognised directly in profit or loss.

Non-current assets held under finance leases are depreciated according to the method determined by the Company for its own non-current assets. However, if the transfer of the ownership title is not certain, non-current assets held under finance leases are depreciated during their expected useful life or their lease term, whichever is shorter.

Leases that transfer primarily all the risks and all the proceeds related to the item leased to the lessor are recognised as operating leases. Lease fees and later lease instalments due under operating leases are recognised as costs in profit or loss using the straight-line method over the term of the lease concerned.

9.3.5. Assets held for sale

This group includes tangible non-current assets and investment properties, if their carrying amount is recovered mainly through their sale, and not through their further use. Assets held for sale are measured by the Group at the lower of the carrying amount and fair value less any costs to sell, and their depreciation is discontinued. Assets held for sale are available for immediate sale in their current state, under the conditions that typically apply to the sale of such assets, their sale is highly likely and their buyer is actively searched for by the Company's management.

Assets classified as held for sale are disclosed in the balance sheet separately from other assets.

9.4. Investment properties

The Group's investment properties include buildings and land held to earn rentals or for capital appreciation. Investment properties acquired in separate transactions are initially measured at cost including transaction costs. Otherwise, e.g. when acquired as a result of the acquisition of another business entity, they are initially measured at their fair value.

After their initial recognition all investment properties are recognised at their fair value.

The Group estimates the value of investment properties as at December 31 each year on the basis of valuations carried out at such a date by independent experts. Throughout the year, as at the consecutive balance sheet dates, i.e. March 31, June 30 and September 30, the Group assesses whether there are any indications that the fair value may need to be changed.

Fair value can be determined by way of:

- updating it on the basis of valuation carried out by an independent expert with recognised and suitable professional qualifications and experience in evaluating properties with similar location and characteristics;
- analysing data derived from the active market (market prices) of similar investment properties with similar location and in similar condition.

Assets are transferred to and from investment properties only if their intended manner of use is changed.

Any change in fair value of the investment properties during a given year is recognised in profit or loss. If the Group's asset is transferred to the investment properties, the difference between its fair value and its carrying amount is recognised in revaluation reserve, and any further changes thereto are recognised in profit or loss.

If the entity may determine the fair value of an investment property previously measured at cost during its construction, it measures such a property at its fair value. Once the construction of the investment property measured at fair value is completed, the difference between the fair value of such a property on that day and its earlier carrying amount is recognised in profit or loss.

9.5. Impairment of non-financial assets

As at the balance sheet date, the Group is required to assess whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired or that an annual impairment test needs to be conducted in order to check whether an asset has been impaired, the Group calculates the asset's recoverable amount.

The asset's recoverable value corresponds to the higher of the asset's or cash-generating unit's fair value less any selling costs or the asset's or cash-generating unit's value in use. It is determined for individual assets unless a given asset independently generates no cash flows which are mostly separate from those generated by other assets or a group of assets. If the carrying amount of an asset is higher than its recoverable value, the asset is impaired and an appropriate impairment loss is recognised. For the value in use to be determined, the forecast cash flows are discounted to their present value using a discount rate before tax, which reflects the present market estimation of the value of money in time and a risk typical of a given asset. Impairment losses on assets used in the ongoing business activities are recognised in other operating costs.

As at each balance sheet date, the Group decides whether any circumstances occurred indicating that an impairment loss on a given asset recognised in previous periods is to be kept or whether it should be decreased. If appropriate circumstances occurred, the Group estimates the recoverable value of such an asset. The previously recognised impairment loss is reversed if, and only if, the estimated value used for determining the recoverable value of a given asset has changed since its recognition. In such an event, the carrying amount of a given asset is increased up to its recoverable value. The increased amount cannot exceed the asset's carrying amount, which would be determined (less any accumulated depreciation or amortisation), if in the previous years the asset concerned was not impaired at all. The reversal of the impairment loss on a given asset is recognised as revenue directly in the income statement, unless such an asset is recognised in the revaluated value, then the reversal is recognised as an increase in the revaluation reserve. Upon the reversal of the impairment loss, in the following periods the amortisation/depreciation amount is adjusted in such a way as to allow for the verified carrying amount of a given asset less its residual value to be amortised/depreciated on a regular basis over the remain useful life of such an asset.

9.6. External borrowing costs

External borrowing costs attributable to the acquisition, construction or production of a qualifying asset are included in the cost of the asset in accordance with IAS 23. Any other external borrowing costs are recognised in profit or loss when incurred.

9.7. Intangible assets

Intangible assets acquired in separate transactions are recognised in the balance sheet at cost. Intangible assets acquired through the acquisition of a business entity are recognised in the balance sheet at fair value as at the acquisition. Upon their initial recognition, intangible assets are measured at cost less any accumulated amortisation and any impairment losses thereon.

Any expenditure on internally generated intangible assets, except for the capitalised development expenditure, is not capitalised and is recognised in costs in the period in which it is incurred.

Intangible assets with a definite useful life are amortised using the straight-line method over the useful live and tested for impairment whenever there is any indication that they may be impaired. For the intangible assets with a definite useful life the amortisation period and the amortisation method are reviewed at least at the end of each financial year. Any changes in the expected useful life or the expected consumption of economic benefits generated by a given asset are recognised through a change, respectively, in the amortisation period or in the amortisation method and treated as changes in the estimated values. Amortisation of the intangible assets with a definite useful life is recognised as profit or loss in the item which corresponds to the function of a given intangible asset.

Intangible assets with an indefinite useful life and those that are not in use are annually tested for impairment individually or jointly as cash-generating units.

9.7.1. Research and development costs

Research and development costs are recognised in profit or loss as costs when incurred. Any development expenditure incurred as part of a given project is carried forward to the next period, when it is assumed that it will be recovered in the future. After the initial recognition of development expenditure, the historical cost model is applied, according to which assets are recognised at cost less any accumulated amortisation and impairment losses. Any expenditure carried forward to the next period is amortised over the expected period of revenue generated from sale of a given project.

Development costs are tested for impairment on an annual basis if a given asset has not yet been put into operation or, more frequently, when during the reporting period there is any indication that their carrying amount may be impossible to recover.

As at each balance sheet date, any development costs that are in progress are disclosed in intangible assets as a separate item (“Intangible assets under construction”).

The rules applied to the Group’s intangible assets can be summarised as follows:

	Patents and licences	**Cost of development works**	**Computer software**
Useful life	In case of patents and licences used under agreements for a definite period, their useful life period adopted includes an additional period for which their use can be extended.	3 years	2 years
Applied amortisation method	Straight-line method	Straight-line method	Straight-line method
Internally generated or acquired	Acquired	Internally generated	Acquired
Impairment tests	Annual	Annual	Annual

Any gain or loss on derecognition of intangible assets is calculated as a difference between the net sales proceeds and the carrying amount of such assets, and recognised in profit or loss for the period, in which the assets are derecognised.

9.7.2. Goodwill

Goodwill acquired as a result of business combination is initially recognised at cost being the excess of costs of the business combination over the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if there is any indication that it might be impaired. Goodwill is not amortised.

At the acquisition date, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is so allocated shall:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- not be larger than an operating segment within the meaning of the Group's segments as defined in accordance with IFRS 8 Operating Segments before aggregation.

Goodwill is impaired by estimating the recoverable value of the cash-generating unit, to which it has been allocated. When the recoverable value of the cash-generating unit is lower than the carrying amount, an impairment loss is recognised. It shall not be reversed in the future reporting periods. When goodwill forms part of the cash-generating unit and some business within such a unit is sold, a gain or loss on such a sale transaction is determined taking into account the goodwill associated with the business sold which is included in its carrying amount. In such circumstances, the goodwill sold is determined in relation to the relative value of the business sold and the value of the remaining part of the cash-generating unit.

9.8. Financial instruments

Financial assets fall into the following categories:

- Financial assets held to maturity,
- Financial assets measured at fair value through profit or loss,
- Granted loans and own receivables,
- Financial assets available for sale

Financial liabilities include:

- Financial liabilities measured at fair value through profit or loss,
- Financial liabilities measured at amortised cost.

Financial assets held to maturity include any investments with determined or determinable payments and fixed maturity dates, which the Group intends and is able to hold until such dates, except for any loans or amounts due to the Group. Financial assets held to maturity are measured at amortised cost at the effective interest rate. Financial assets held to maturity are classified as non-current assets, if their maturity exceeds 12 months from the balance sheet date.

Financial assets acquired for profit generation from short-term fluctuations in their prices are classified as financial assets measured at fair value through profit or loss. Financial assets measured at the fair value through profit or loss are recognised at the fair value reflecting their market value as at the balance sheet date. Any changes in fair value of such financial assets are recognised in financial revenues or costs, except for any changes in the value of currency future/forward contracts. Financial assets measured at fair value through profit or loss are classified as current assets, if the Management Board intends to exercise them within 12 months from the balance sheet date.

Granted loans and own receivables include any financial assets other than those classified as derivatives, whose payments are determined or determinable and which are not listed on any active market. Granted loans are recognised at amortised cost. They are classified as current assets, if their maturity is no longer than 12 months from the balance sheet date. Granted loans and own receivables with maturity that exceeds 12 months from the balance sheet date are classified as non-current assets.

Any other financial assets are financial assets available for sale. Financial assets available for sale are recognised at fair value, including any transaction costs and reflecting their market value as at the balance sheet date. If financial assets available for sale are not traded on an active market and it is impossible to reliably determine their fair value using alternative methods, financial assets available for sale are measured at cost less any impairment losses, if measured at historical cost.

The positive or negative difference between fair value and cost less any deferred tax, of assets available-for-sale is allocated to the revaluation reserve, if their market price established on a regulated market exists or fair value can be determined in any other reliable manner. Impairment losses on financial assets are recognised in profit or loss as financial costs.

Derivatives other than hedging instruments are classified as financial assets or liabilities are measured at fair value through profit or loss and disclosed at fair value adjusted by any measurement effects recognised in profit or loss.

The Group enters into agreements with investors, subcontractors and suppliers, which are denominated in foreign currencies and whose terms meet the criteria for recognising them as embedded derivatives. Due to the fact that the agreements other than those for financial instruments concluded by the Group are denominated in currencies which are commonly used in agreements for deliveries of certain goods or services on the domestic market, the embedded financial instruments are not measured separately from their underlying agreements by the Company.

A financial asset is recognised in the balance sheet when the Group is a party to an agreement (contract) relating to such a financial asset.

A financial asset is derecognised when the Group loses control over the contractual rights attached to a given financial instrument. This usually happens when the instrument is sold or when all the cash flows assigned to a given instrument are transferred to an independent third party.

Any acquisition and sale of financial assets are recognised at the transaction date. Financial assets are initially measured at cost, i.e. fair value, including the transaction costs.

Impairment of financial assets

As at each balance sheet date the Group assesses whether there is any objective indication that a financial asset or a group of financial assets is impaired. If such indications exist, the Group tests the financial assets for impairment. A negative test result is recognised in profit or loss for a given period.

Financial liabilities

Financial liabilities are measured at fair value when recognised in the accounting records. The initial measurement includes transaction costs, except for financial liabilities classified to the categories measured at fair value through profit or loss. Subsequently financial liabilities are measured without transaction costs of their disposal. A financial liability is recognised in the balance sheet when the Group is a party to an agreement (contract) relating to such a financial liability.

Financial liabilities measured at fair value through profit or loss

This category includes two types of liabilities, namely financial liabilities held for trading and financial liabilities indicated at their initial measurement as measured at fair value through profit or loss. Financial liabilities held for trading are incurred principally for the purpose of selling or repurchasing them in the near term or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or are derivatives.

The Group's financial liabilities measured at fair value through profit or loss include primarily derivatives with a negative fair value. Liabilities classified as financial liabilities measured at fair value are measured at each reporting date at fair value, and any gain or loss is recognised in revenues from operating activities. Derivatives are measured at fair value at the balance sheet date and at the end of each reporting period based on valuations from banks making transactions. Fair value of debt instruments is future cash flows discounted using a current market interest rate applicable to similar instruments.

Financial liabilities measured at amortised cost

Financial liabilities other than those measured at fair value through profit or loss are classified as financial liabilities measured at amortised cost. This category includes principally the Group's trade liabilities and incurred loans and borrowings, finance leases, factoring and bonds. Liabilities classified to this category are measured at amortised cost using an effective interest rate.

9.9. Investments in jointly controlled entities

From the acquisition of control over Bahn Technik Wrocław Sp. z o.o., i.e. from December 30, 2016 the Group does not have any shares in the jointly controlled entities. Until December 30, 2016 the investment was consolidated as a joint venture in accordance with IFRS 11, but currently the company does not hold shares in any significant jointly controlled entities.

9.10. Financial derivatives

Derivatives used by the Group for the purpose of currency hedging mainly include IRS contracts. This type of financial derivatives is measured at fair value. Derivatives are recognised as financial assets when their value is positive and as financial liabilities when it is negative.

Any gain or loss resulting from changes in fair value of derivatives which do not meet the criteria for applying special hedge accounting principles, are recognised directly in profit or loss.

Fair value of IRS contracts is determined on the basis of current interest rates applicable to contracts with similar maturity.

9.11. Hedge accounting

A hedging instrument is a designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

After the initial recognition, the entity measures a financial asset or liability at fair value corresponding to the amount for which an asset may be replaced or liability settled between the interested and informed parties at arm's length.

A cash flow hedge which meets the hedge accounting principles is recognised as follows:

- A part of gain or loss on a hedging instrument which is considered an effective hedge is recognised only as a change in value of the hedged position;
- A non-effective part of gain or loss on a hedging instrument is recognised in profit or loss.

A cash flow hedge considered effective is recognised in equity until the recognition of the asset or liability hedged.

9.12. Inventory

Inventory is measured at cost no higher than realisable selling price as at the balance sheet date.

The cost does not include:

- any costs arising from unused production capacity and production losses,
- any costs of storage, unless they are indispensable for the manufacturing process,
- any margin on internal turnover (any margin on services rendered by the auxiliary business activities for the core business activities and any margin on internal sales between different sections of the core business activities), which is excluded together with the cost of internal turnover,
- any general and administrative costs and any costs of sales, marketing and distribution.

Any inventory that is used or sold is measured at the prices (costs) of the assets, which were acquired (manufactured) first by the Group, i.e. according to the FIFO (First in First out) method. Write-downs of inventory made because its value has declined or adjusted to the net realisable value are recognised in the balance sheet and classified as part of the cost of goods sold.

Reversals of write-downs are recognised as decreases in the cost of goods sold.

The net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

9.13. Trade and other receivables

Trade receivables, which are normally due within 30 working days, are recognised and disclosed in the amounts originally invoiced, including any impairment losses on non-collectable receivables. If an impact of the value of money in time is significant, the receivable amount is determined by discounting the forecast future inflows to the present value using a discount rate that reflects the present market value of money in time. If a discount-based method is applied, an increase in receivables over time is recognised as financial costs.

Any receivables that are at risk, disputable, claimed at court, to be recovered or for any other reasons doubtful are subject to specific impairment losses that are made in the full amount of their value less any fair value of their reliable securities. Impairment losses on doubtful receivables are estimated when it is no longer possible to collect them in their full amounts. Such receivables include in particular those that are overdue more than 180 days. Non-collectible receivables are impaired when found non-collectable. Impairment losses on receivables decrease their balance in the balance sheet and are recognised, respectively, as the cost of goods sold or financial costs depending on the type of receivable impaired. Reversals of impairment losses are recognised as decreases in the cost of goods sold. In specific cases impairment losses may decrease revenues from sale.

9.14. Cash and cash equivalents

Cash and short-term deposits in the balance sheet include cash at bank and in hand and short-term deposits with original maturity no longer than 3 months.

The Group discloses cash deposited on escrow accounts and cash blocked on the accounts of the property development companies as cash and cash equivalents in the consolidated balance sheet, whereas the aforementioned cash is deducted from the cash at start of period and the cash at end of period, which is disclosed in the consolidated statement of cash flows, and the balance sheet difference is recognised in the cash flows from operating activities.

9.15. Equity

Equity is recognised in the accounting records by type and according to the rules set forth in the provisions of law and the Articles of Association of the Parent Company and subsidiaries.

Share capital is recognised in its nominal value, as specified in the Parent Company's Articles of Association and entered in the commercial register.

Any declared, but unpaid, contributions to share capital are recognised in called-up share capital. Own shares and called-up share capital decrease the Group's equity.

Revaluation reserve is created in accordance with the provisions of the commercial law, according to which contributions to the revaluation reserve must constitute at least 8% of the profit for a given financial year, until it constitutes at least one third of share capital.

Share premium account is the surplus of the issue price over the nominal value.

Any costs of share issue at the establishment of a joint-stock company or at an increase in share capital decrease share premium account down to the surplus of the issue value over the nominal value of shares.

Revaluation reserve also includes:

- Previous years' profits,
- Hedging instruments,
- Actuarial gains (losses).

Retained earnings include a profit or loss for the reporting period concerned.

9.16. Interest-bearing loans, borrowings and debt securities

All the loans, borrowings and debt securities are initially recognised at cost corresponding to fair value of received cash less any costs associated with the obtaining of a loan or borrowing.

After the initial recognition, interest-bearing loans, borrowings, debt securities and finance lease liabilities are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost includes any costs associated with the obtaining of a loan or borrowing, as well as any costs of discounts or bonuses obtained at the settlement of the liability.

Any gain or loss is recognised in the balance sheet as at the derecognition of the liability from the balance sheet and as a result of write-down calculation.

9.17. Trade and other liabilities

Short-term trade liabilities are recognised in the amount payable. Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

Financial liabilities other than those measured at fair value through profit or loss are measured at amortised cost (i.e. they are discounted using an effective interest rate) at the balance sheet date. For short-term liabilities payable within 365 days, the measurement corresponds to the amount payable.

9.18. Provisions

Provisions are recognised, if the Group has an obligation (legal or customarily expected) resulting from past events, and if it is likely that meeting such an obligation shall result in the outflow of economic benefits being necessary, and if the amount of such an obligation can be reliably estimated. If the Group expects that the costs covered by the provision will be reimbursed, for example, under an insurance contract, such a reimbursement is recognised as a separate asset, but only when it is certain that such a reimbursement will be made. Any costs related to a given provision are recognised in loss or profit less any certain reimbursements.

If an impact of the value of money in time is significant, the provision is determined by discounting the forecast future cash flows to their present value, using the gross discount rate that reflects the present market value of money in time and any risk related to a given liability. If a discount-based method is applied, an increase in the provision over time is recognised as financing costs.

9.19. Retirement and pension benefits and jubilee bonuses

In accordance with the corporate remuneration systems, employees of the Group companies are entitled to jubilee bonuses and retirement and pension benefits. Jubilee bonuses are paid to employees who have worked in the Company for a certain number of years. Retirement bonuses are paid on a one-off basis at the moment of retiring. The amounts of retirement and pension benefits and jubilee bonuses depend on the employee's work records and average remuneration. The Group creates provisions for future liabilities from retirement and pension benefits and jubilee bonuses in order to assign costs to relevant periods. Pursuant to IAS 19, jubilee bonuses are other long-term employee benefits, and retirement benefits are programmes for certain benefits upon the termination of the employment period. Present value of these liabilities as at the balance sheet date is determined in accordance with the generally applicable actuarial methods. Accrued liabilities are equal to the discounted payments to be made in the future, taking into account the turnover of employment, and relate to the period up to the balance sheet date. Demographic data and information about the turnover of employment are based on historical data. Any actuarial gains or losses on the measurement of the retirement and disability pension benefit programmes are recognised in other comprehensive income, whereas any actuarial gains or losses on the measurement of jubilee bonuses are recognised in profit or loss. Any other costs related to the programmes for specific benefits are recognised in a full amount in profit or loss for the period in which they are incurred.

9.20. Prepayments

Prepayments include in particular:

- rents paid in advance,
- insurance,
- subscriptions,
- external services to be rendered in the following periods, but paid for in advance,
- maintenance repairs.

Prepayments are settled respectively to the lapse of time or the quantity of services rendered. The time and manner of settlement depends on the nature of the costs settled on a prudent basis.

If costs attributable to future periods are not settled within the nearest 12 months from the balance sheet date, they are disclosed in the balance sheet as a separate item ("Long-term prepayments").

9.21. Revenues and costs

Revenues are recognised in such amounts as it is likely that the Group receives economic benefits related to certain transactions and when their amounts can be reliably estimated.

Revenues are recognised exclusive of the value added tax (VAT) and rebates. Revenues are recognised in keeping with the criteria provided below.

The Group recognises sales revenues in accordance with the provisions of the articles of association of the companies that are its members.

9.21.1. Sales of goods and products

Revenues are recognised when a significant risk and benefits resulting from the ownership title to goods and products have been transferred to the buyer and when the amount of revenues can be measured reliably.

9.21.2. Construction contracts

Revenues from the long-term services in progress, completed as at the balance sheet date to a significant degree, are recognised as at the balance sheet date proportionally to the degree of progress in their completion, if their amounts can be determined reliably. The degree of progress is measured using a proportion of the costs incurred from the conclusion date of the contract to the revenue determination date in the estimated total costs of completion thereof or using a proportion of the works performed to the total works.

The degree of progress, as specified above, is applied for the purpose of determining the value of sales in relation to the value of revenues specified in the concluded contract. A difference between the sales determined (calculated) in such a way and the sales invoiced to the customers is recognised in assets as a separate item ("Construction contracts") if it is positive, and in liabilities if it is negative.

If the degree of progress cannot be determined reliably as at the balance sheet date, revenues are recognised in the amount of costs incurred in a given reporting period, however, no higher than the amount of costs which is likely to be covered by the contracting entity in the future.

If the total contract completion costs are likely to exceed the total revenues from the contract, the estimated loss is recognised as a cost attributable to the period in which it is disclosed.

Costs related to the provision of uncompleted services include costs incurred from the conclusion date of the contract concerned to the balance sheet date. Any costs incurred before the conclusion of the contract and related to the implementation of its subject are recognised as assets if they are likely to be covered in future by revenues received from the customer. Subsequently they are recognised in the costs of the construction services in progress.

The Group performs certain contracts under consortium agreements in keeping with which it acts as the consortium leader. The Group recognises no revenues or costs attributable to consortium members in accordance with IFRS 11.

At the same time the Group recognises only such assets and liabilities in the balance sheet as are attributable to the Group's share in the jointly controlled operations.

Rules for calculating revenues from sales:

Revenues from construction and installation services (works) performed under an uncompleted contract constitute the actually incurred costs increased by the margin assumed on a given contract calculated as a percentage.

Actual revenues entered into the accounting records in a given period are adjusted to the revenues determined for the purpose of maintaining the margin assumed for a given contract in accordance with the following formula:

RfS = C/(1-m)

where:

RfS – revenues from sales
C – actually incurred costs
m – margin in % assumed for a given contract and specified in the developed budget for costs

Revenues from contracts settled in EUR are calculated in accordance with the following rules:
Margin in % for contracts denominated in EUR is calculated on a monthly basis, as a function of the PLN/EUR exchange rate and in accordance with the following formula:

M = (Cr – Cc)/Cr

where:

Cr – conversion revenues
Cc – conversion costs

Conversion revenues (Cr) are calculated according to the following formula:

Cr = Re + Ri * exPLN/EUR

where:

Re – revenues entered into the accounting records in Polish zlotys
Ri – revenues to be invoiced in EUR in future
exPLN/EUR – the average PLN/EUR exchange rate as at the end of a given month (announced by NBP)

Conversion costs (Cc) are calculated according to the following formula:

Cc = Ce + Ci PLN + Ci EUR * exPLN/EUR

where:

Ce – costs entered into the accounting records in Polish zlotys
Ci PLN – costs to be invoiced in Polish zlotys in future
Ci EUR – costs to be invoiced in EUR in future

Conversion revenues and conversion costs are entered in the margin formula provided above, and after that such a margin (calculated as a percentage) is entered in the formula for the revenues.

9.21.3. Interest

Revenues from interest are recognised as accrued (using the effective interest rate method) on the net carrying amount of a given financial asset.

9.21.4. Dividends

Dividends are recognised when the shareholders' rights to receive them are established.

9.21.5. Developer activities

Work in progress disclosed in the inventory consists of any costs incurred during an investment project which are closely related to such a project, including any interest, commissions on loans, payments of the perpetual usufruct of land and others.

Advances paid by customers towards purchases of residential premises are recognised as advances received for residential premises in the liabilities. The land on which the investment project is carried out is recognised in the inventory as semi-finished products and work in progress. These items are settled once the investment project is completed, accepted for use and the right of ownership transferred to the customer (by a notarial deed). Advances received from customers are forwarded to sales revenues in the income statement. Costs recognised as work in progress are forwarded to the cost of goods sold in the income statement.

9.22. Taxes

9.22.1. Current tax

Any income tax on revenues generated in Poland is calculated in accordance with the Polish tax regulations, but any income of entities that carry out their activities abroad are taxed in accordance with local tax regulations, including provisions of double taxation conventions. The applicable income tax rate in Poland is 19%, in Lithuania 15%, Sweden 22%, Belarus 18% and Ukraine 18%.

Liabilities and receivables from the current tax for the current and previous periods are measured at the expected payment for the tax authorities (the expected refund from the tax authorities) calculated according to tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

9.22.2. Deferred tax

Deferred income tax is calculated using the balance sheet liability method in respect of all the temporary differences occurring as at the balance sheet date between the tax value of assets and liabilities and their carrying amounts disclosed in the consolidated financial statements.

Provisions for deferred income tax are recognised with reference to all the positive temporary differences:

- except for when a provision for deferred income tax arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination and having no effect at the moment of its being carried out on the gross profit or loss or on the taxable income or tax loss; and
- for the positive temporary differences arising from investments in subsidiaries or affiliated parties and shares in joint ventures, except for when the due dates for the reversal of temporary differences are subject to the investor's control and when it is likely that in the foreseeable future the temporary differences will not be reversed.

Deferred tax assets are recognised in relation to all the negative temporary differences and also to unused tax assets and unused tax losses carried forward to the next years, to the extent which makes it probable that future taxable income will be available to be reduced by the aforementioned differences, assets and losses:

- except for when the deferred tax assets related to the negative temporary differences arise from the initial recognition of an asset or liability in a transaction other than a business combination and having no effect at the moment of its being carried out on the gross profit or loss or on the taxable income or tax loss; and
- for the negative temporary differences arising from investments in subsidiaries or affiliated parties and shares in joint ventures, the deferred tax asset is recognised in the balance sheet only to the extent which makes it probable that in the near future the aforementioned temporary differences will be reversed and the taxable income will be available to deduct the negative temporary differences.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and is decreased as necessary, when it is no longer likely that future taxable income will be available to fully or partially capitalise the deferred income tax asset.

Deferred income tax assets and provisions for deferred income tax are measured with the use of such tax rates as are expected to be binding at the time of the capitalisation of such an asset or the release of such a provision, based on the tax rates (and tax laws) effective as at the balance sheet date or tax rates (and tax laws) that are to be certainly effective as at the balance sheet date.

Income tax on transactions recognised directly in equity is recognised in equity and not in profit or loss.

The Group offsets the deferred income tax assets against the provisions for deferred income tax if, and only if, it has an enforceable legal title to offset receivables against the provisions for current income tax and if the deferred income tax refers to the same tax payer and the same tax authority.

9.22.3. Value added tax

Revenues, costs, assets and liabilities are recognised less value added tax, except for the following:

- when the value added tax paid at the purchase of assets or services cannot be recovered from tax authorities; it is recognised respectively as part of the cost of such an asset or service;
- receivables and liabilities that are disclosed with the value added tax.

A net amount of the value added tax to be recovered from or paid to tax authorities is recognised in the balance sheet as part of receivables or liabilities.

9.23. Earnings per share

Earnings per share for each period are calculated by dividing a net profit allocated to shareholders in the Parent Company for a given period by the weighted average number of shares outstanding in the reporting period concerned. Diluted earnings per share for each period are calculated by dividing a net profit allocated to shareholders in the Parent Company for a given period by the total of the weighted average number of ordinary shares outstanding during the reporting period concerned and all the potential dilutive shares.

Shares are included in the weighted average number of shares starting from the day in which the payment for shares becomes due (which usually corresponds to their issue date). The ordinary shares issued as part of payment made under a business combination are taken into account when calculating the average weighted number of shares at the business combination date. Ordinary shares that can be issued if certain conditions are met (contingently issuable shares) are treated as outstanding during the period and included in the calculation of earnings per share only when the contingency has been met. Outstanding ordinary shares that are contingently returnable (i.e. are subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date they are no longer subject to recall.

9.24. Service concession arrangements

The Company entered into service concession arrangements in the framework of a public-private partnership involving the grantor (Litewski Urząd Drogowy) and the operator (UAB Palangos aplinkkelis which is a subsidiary of the Issuer). The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and other terms. The Group recognises and measures revenue in accordance with IAS 11 and IAS 18 for the services it performs. The Group accounts for service concession arrangements using the model specified in IFRIC 12. If the operator performs more than one service (i.e. construction, maintenance and modernisation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable. The Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor.

The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator:

- specified or determinable amounts or

- the shortfall, if any, between the amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

IAS 32, IAS 39 and IFRS 7 apply to the financial asset recognised. The amount due from or at the direction of the grantor is accounted for in accordance with IAS 39 as receivables, and interest calculated thereon using the effective interest method is recognised in profit or loss.

In accordance with IAS 23, costs of external funds attributable to the arrangement are recognised as an expense in the period in which they are incurred unless the operator has a contractual right to receive an intangible asset (a right to charge users of the public service).

10. Standards and amendments to standards adopted by the IASB, but not yet approved by the EU

In these consolidated financial statements the Group decided not to apply any standards or interpretations issued before their effective dates.

At the moment, the IFRS in the shape approved by the European Union do not differ significantly from the regulations issued by the International Accounting Standards Board (IASB), except for the below new standards and amendments to standards, as well as new interpretation, which as at March 28, 2018 have not yet been approved for application in the EU:

- **IFRS 14 Regulatory Deferral Accounts** (effective for annual periods beginning on or after January 1, 2016) – The European Commission decided not to start the approval process of this interim standard for application in the EU until its final version is issued,

- **IFRS 17 Insurance Contracts** (effective for annual periods beginning on or after January 1, 2021),

- **Amendments to IFRS 9 Financial Instruments** – Prepayment Features with Negative Compensation (effective for annual years beginning on or after January 1, 2019),

- **Amendments to IFRS 10 Consolidated Financial Statements** and **IAS 28 Investments in Associated Entities and Joint Ventures** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, as amended (the effective date differed until the research project on the equity method has been concluded),

- **Amendments to IAS 19 Employee Benefits** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019),

- **Amendments to IAS 28 Investments in Associates and Joint Ventures** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019).

- **Amendments to various standards – Annual Improvements to IFRS Standards 2015-2017 Cycle** – Amendments made under the procedure for making annual improvements to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) which aimed primarily at eliminating any inconsistencies and clarifying the terminology thereof (effective for annual periods beginning on or after January 1, 2019),

- **Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration** (effective for annual periods beginning on or after January 1, 2018),

• **Interpretation IFRIC 23 Uncertainty over Income Tax Treatments** (effective for annual periods beginning on or after January 1, 2019).

According to the Group's estimates, the aforementioned new standards, amendments to the existing standards and interpretation would have no significant impact on the financial statements, if they were applied by the Group as at the balance sheet date.
Hedge accounting for a portfolio of financial assets and liabilities, principles of which have not been approved for application in the EU, continues to remain outside the regulations approved for application by the EU.

According to the Group's estimates, the application of hedge accounting to the portfolio of financial assets or liabilities under IAS 39 Financial Instruments: Recognition and Measurement would have no significant impact on the financial statements, if they were adopted for application as at the balance sheet date.

New standards and amendments to the existing standards that have already been issued by the IASB and approved for application in the EU, but have not yet become effective
The following new standards have already been issued by the IASB and approved for application in the EU, but have not yet become effective as at the approval of these financial statements:

• **IFRS 9 Financial Instruments** – approved for application in the EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018),

• **IFRS 15 Revenue from Contracts with Customers** and Amendments to IFRS 15 Revenue from Contracts with Customers – approved for application in the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018).

• **IFRS 16 Leases** – approved for application in the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),

• **Amendments to IFRS 2 Share-based Payment** – Classification and Measurement of Share-based Payment Transactions – approved for application in the EU on February 27, 2018 (effective for annual periods beginning on or after January 1, 2018),

• **Amendments to IFRS 4 Insurance Contracts** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – approved for application in the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 Financial Instruments is first applied),

• **Amendments to IFRS 15 Revenue from Contracts with Customers** – Clarifications to IFRS 15 Revenue from Contracts with Customers – approved for application in the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2018),

• • **Amendments to IAS 40 Investment Property** – Transfers of Investment Property – approved for application in the EU on March 14, 2018 (effective for annual periods beginning on or after January 1, 2018),

• **Amendments to IFRS 1 and IFRS 28 – Annual Improvements to IFRS Standards 2014-2016 Cycle** – Amendments made under the procedure for making annual improvements to IFRS (IFRS 1, IFRS 12 and IAS 28) which aimed primarily at eliminating any inconsistencies and clarifying the terminology thereof – approved for application in the EU on February 7, 2018 (amendments to IFRS 1 and IFRS 28 effective for annual periods beginning on or after January 1, 2018).

The Group decided not to apply the aforementioned new standards and amendments to the existing standards earlier. The Group is in the process of determining an effect of the implementation of IFRS 16. Except for the aforementioned effect of IFRS 9 and IFRS 15 and the estimated effect of IFRS 16, the Group estimates that the aforementioned new standards and amendments to the existing standards would not have any significant effect on the financial statements, if they had been applied by the Company as at the balance sheet date.

Effect of application of new accounting standards and changes to the accounting policy

Amendments to standards and interpretations applied for the first time in 2017

The following amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and approved for application in the EU shall be applied for the first time to the financial statements of the Group for 2017:

- **Amendments to IAS 7 Statement of Cash Flows** – Disclosure Initiative – approved for application in the EU on November 6, 2017 (effective for annual periods beginning on or after January 1, 2017),

- **Amendments to IAS 12 Income Taxes** – Recognition of Deferred Tax Assets for Unrealised Losses – approved for application in the EU on November 6, 2017 (effective for annual periods beginning on or after January 1, 2017),

- **Amendments to IFRS 12 – Annual Improvements to IFRS Standards 2014-2016 Cycle** – Amendments made under the procedure for making annual improvements to IFRS (IFRS 1, IFRS 12 and IAS 28) which aimed primarily at eliminating any inconsistencies and clarifying the terminology thereof – approved for application in the EU on February 7, 2018 (amendments to IFRS 12 effective for annual periods beginning on or after January 1, 2017).

The aforementioned amendments to standards did not have any significant effect on the Group's financial statements for 2017.

Effect of new accounting standards that become effective on January 1, 2018

- **IFRS 9 Financial Instruments –** IFRS 9 Financial Instruments implements changes to the classification of financial assets (at amortised cost and at fair value through profit or loss or through other comprehensive income) and introduces financial asset impairment principles (the incurred impairment loss model is replaced with the expected impairment loss model) and also modifies the approach to hedge accounting.

The Group shall apply IFRS 9 retrospectively for the periods commencing after January 1, 2018, without comparable data restatement. Any differences resulting from the change in the measurement of financial assets as at the first application of IFRS 9 shall be recognised in other capital reserves. The Group analysed the effect of IFRS 9 on the accounting principles applied on its operations or its financial performance. In the Group's opinion, the introduction of IFRS 9 will not have any effect on the consolidated financial statements or the consolidated equity of the Group, except for the following:

The Group estimated the effect on the financial statement as at December 31, 2017 of the expected losses on short-term receivables. Thus, the Group estimated that as at January 1, 2018 the impairment losses (net of the deferred tax) would decrease the Group's equity by PLN 2 751 thousand as a result of a decrease in the carrying amount of trade receivables.

The Group estimated the effect on the financial statements as at December 31, 2017 of the recognition of the discounted deposits and amounts held. Thus, the Group estimated that as at January 1, 2018 the financial costs and revenues (net of the deferred tax) would decrease the Company's equity by PLN 667 thousand as a result of a decrease in the carrying amount of deposits and amounts held.

In addition to the aforementioned amendments, the Group analysed an effect of IFRS 9 on the methodology for measuring service concession arrangements. The financial assets analysed continue to meet the requirements for being measured at amortised cost using the effective interest rate method.

- **IFRS 15 Revenue from Contracts with Customers**

IFRS 15, which replaces IAS 11 Construction Contracts and IFRS 18 Revenue, has become effective on January 1, 2018. In keeping with IFRS 15 the entity will recognise revenue to depict the transfer of goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 introduces a five-step model framework: 1. Identify the contract with the customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price 5. Recognise revenue

The Group analysed the contents of contracts with customers (construction contracts) in order to identify any differences resulting from the introduction of IFRS 15 and the recognition of revenue in keeping with the aforementioned five-step model.

As a result thereof, the Group concluded that an impact of the introduction of IFRS 15 on its financial statement is insignificant, and therefore it does not intend to make any adjustments thereto due to the introduction of IFRS 15 as at January 1, 2018.

As a result of the implementation of IFRS 15, the Group updated the accounting policy in the area of the revenue recognition in order to adjust its terminology to that used in IFRS 15. The Company also intends to modify disclosures in the scope required by the aforementioned standard. The Group will apply IFRS 15 using the modified retrospective method.

From January 1, 2018 onwards, the Group will recognise revenues from the provision of the uncompleted construction services in accordance with the five-step model and apply the cost-based method. In the Management Board’s opinion, the cost-based method is the best adjusted method for recognising revenues from long-term contracts.

As a result of the works carried out, no significant effect of IFRS 15 on the development activities of the Group was identified. The Group recognises revenues from the sale of residential premises and houses at the transfer of ownership, i.e. at the signing of a final notary deed.

Changes introduced by the Group independently

In 2017 no changes were made to the accounting principles and the rules for preparing financial statements in comparison to those disclosed in the Group’s financial statements for 2016 published on March 21, 2017.

11. Selected financial data

The average PLN/EUR exchange rates in the period covered by the consolidated annual financial statements:

Financial year ended	Average exchange rate in the period*	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
31.12.2017	4,2447	4,1709	4,4157	4,1709
31.12.2016	4,3757	4,2355	4,5035	4,4240

** The average of the exchange rates applicable on the last day of each month in the financial year concerned.*

Key items of the consolidated balance sheet translated into the euro:

	31.12.2017		31.12.2016	
	kPLN	kEUR	kPLN	kEUR
Non-current assets	731 454	175 371	721 725	163 139
Current assets	710 826	170 425	675 008	152 578
TOTAL ASSETS	**1 442 280**	**345 796**	**1 396 733**	**315 717**
Equity	762 034	182 703	775 967	175 399
Long-term liabilities	116 953	28 040	153 550	34 709
Short-term liabilities	563 293	135 053	467 216	105 609
TOTAL EQUITY AND LIABILITIES	**1 442 280**	**345 796**	**1 396 733**	**315 717**

The consolidated balance sheet data is converted at the exchange rate established by the National Bank of Poland on the last day of the financial year concerned.

Key items of the consolidated income statement translated into the euro:

	Year ended 31.12.2017		Year ended 31.12.2016	
	kPLN	kEUR	kPLN	kEUR
Sales revenues	1 374 291	323 766	1 381 173	315 646
Cost of goods sold	(1 280 956)	(301 777)	(1 233 007)	(281 785)
Gross profit (loss) on sales	**93 335**	**21 989**	**148 166**	**33 861**
Operating profit (loss)	38 118	8 980	73 792	16 864
Gross profit (loss)	**33 127**	**7 804**	**67 331**	**15 387**
Net profit (loss) from continued operations	32 043	7 549	56 332	12 874
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	**32 043**	**7 549**	**56 332**	**12 874**

The consolidated income statement data is converted at the average exchange rate of EUR, calculated as the arithmetical mean of the exchange rates applicable on the last day of each month in the financial year concerned, established by the National Bank of Poland for that day.

Key items of the consolidated statement of cash flows translated into the euro:

	Year ended 31.12.2017		Year ended 31.12.2016	
	kPLN	kEUR	kPLN	kEUR
Cash flows from operating activities	56 881	13 400	(39 418)	(9 008)
Cash flows from investment activities	(38 395)	(9 045)	(30 967)	(7 077)
Cash flows from financial activities	(52 674)	(12 409)	(34 572)	(7 901)
Total net cash flows	**(34 188)**	**(8 054)**	**(104 957)**	**(23 986)**

The above data of the consolidated statement of cash flows is converted at the average exchange rate of EUR, calculated as the arithmetical mean of the exchange rates applicable on the last day of each month in the financial year concerned, established by the National Bank of Poland for that day.

	31.12.2017		31.12.2016	
	kPLN	kEUR	kPLN	kEUR
Cash at start of period	146 360	33 083	251 317	58 974
Cash at end of period	**112 172**	**26 894**	**146 360**	**33 083**

The exchange rates adopted for the purpose of calculating the above data of the consolidated statement of cash flows are as follows:

- - for the "Cash at end of period" item – the exchange rate established by the National Bank of Poland on the last day of the financial year concerned,
- - for the "Cash at start of period" item – the exchange rate established by the National Bank of Poland on the last day of the financial year preceding the financial year concerned.

The EUR/PLN exchange rate on the last day of the financial year ended December 31, 2015 was PLN 4.2615.

12. Information on segments

The Group is organised and managed on a segmented basis, taking into account the type of products and services offered and markets served. Due to quite a uniform nature of business activities carried out by the Group members, the segments specified below overlap with the individual entities within the Group.

As a consequence, the following reporting operating segments have been identified:

- Civil engineering – Poland – segment which performs civil engineering, construction and assembly works (Trakcja PRKiI, BTW, Torprojekt, PEUiM, Dalba and PDM Białystok);
- Construction, engineering and concession arrangements – Baltic States – segment which provides engineering and construction and assembly services in the road and rail sectors in Baltic States (AB Kauno Tiltai Group);
- Other – residential construction segment, which provides broadly defined real estate development services (PRK 7 Nieruchomości).

The Management Board monitors the operating performance of each segment separately in order to make decisions on allocation of resources, assessment of effects of such allocations and generated profits or losses. A gross profit or loss is a basis for assessing the financial performance. The income tax is monitored at the level of the Group and therefore is not allocated to the segments.

The principles applied to the operating segments in order to determine their financial performance, assets and liabilities, and to determine which of these elements are to be monitored at the Group's level remain unchanged.

Key customers:

In 2017 and in the comparable period revenues from transactions with external single customers were respectively 10% or more of the Group's total revenues. Total revenues by type of customers and by segment to which such revenues pertain are presented in the table below.

The total amount of revenue earned in 2017 from a single recipient (PLN thousand)	Segments presenting these revenues
624 146	Civil construction - Poland

The Parent Company's Management Board decided not to disclose any revenues from external customers by product and service, because the cost of acquisition of such information would have been too high, which is compliant with IFRS 8.

(Data in PLN thousand, unless indicated otherwise)

Operating segments

For the period from 1.01.2017 to 31.12.2017	Continued operations						
Audited	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales to external customers	936 087	426 666	11 538	1 374 291	-	-	1 374 291
Sales between segments	1 404	-	136	1 540	-	(1 540)	-
Total segment revenues	**937 491**	**426 666**	**11 674**	**1 375 831**	**-**	**(1 540)**	**1 374 291**
Results							
Depreciation	18 723	10 192	36	28 951	-	-	28 951
Financial revenues - interests	2 217	3 572	38	5 827	-	(28)	5 799
Financial expenses - interests	4 003	2 674	34	6 711	-	(28)	6 683
Gross profit	**37 463**	**14 462**	**345**	**52 270**	**-**	**(19 143)**	**33 127**

(Data in PLN thousand, unless indicated otherwise)

For the period from 1.01.2016 to 31.12.2016	Continued operations						
Audited	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales to external customers	864 847	511 297	5 028	1 381 173	-	-	1 381 173
Sales between segments	7	-	-	7	-	(7)	-
Total segment revenues	**864 854**	**511 297**	**5 028**	**1 381 179**	**-**	**(7)**	**1 381 173**
Results							
Depreciation	14 214	9 148	56	23 418	-	-	23 418
Share of profit of entities consolidated using equity method	248	-	-	248	-	-	248
Financial revenues - interests	912	3 699	40	4 651	-	(194)	4 457
Financial expenses - interests	4 143	3 051	204	7 398	-	(194)	7 204
Gross profit	**24 201**	**66 503**	**107**	**90 811**	**-**	**(23 480)**	**67 331**

(Data in PLN thousand, unless indicated otherwise)

As at 31.12.2017 *Audited*	Continued operations						
	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Segment assets	**935 784**	**674 328**	**39 919**	**1 650 031**	**-**	**(217 587)**	**1 432 444**
Assets not allocated to segments							9 836
Total assests							**1 442 280**
Segment liabilities*	**454 984**	**189 080**	**2 603**	**646 667**	**-**	**(83 374)**	**563 293**
Other disclosures:							
Capital expenditures	(35 193)	(19 860)	-	(55 053)	-	-	(55 053)
Impairment of non-financial assets	(959)	-	-	(959)	-	-	(959)

** short-term liabilities were allocated to assess segment*

As at 31.12.2016 *Audited*	Continued operations						
	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Segment assets	**806 362**	**702 631**	**44 275**	**1 553 269**	**-**	**(167 243)**	**1 386 026**
Assets not allocated to segments							10 707
Total assests							**1 396 733**
Segment liabilities*	**322 596**	**185 287**	**7 305**	**515 188**	**-**	**(47 972)**	**467 216**
Other disclosures:							
Capital expenditures	(34 333)	(14 174)	-	(48 508)	-	-	(48 508)
Impairment of non-financial assets	(12 961)	-	-	(12 961)	-	-	(12 961)

** short-term liabilities were allocated to assess segment*

(Data in PLN thousand, unless indicated otherwise)

Geographical segments

For the period from 1.01.2017 to 31.12.2017 *Audited*	Continued operations					
	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Revenues						
Sales to external customers	949 021	425 270	1 374 291	-	-	1 374 291
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	-	-	-	-	-	-
Total segment revenues	**949 021**	**425 270**	**1 374 291**	**-**	**-**	**1 374 291**

For the period from 1.01.2016 to 31.12.2016 *Audited*	Continued operations					
	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Revenues						
Sales to external customers	869 876	511 297	1 381 173	-	-	1 381 173
Sales between segments	7	-	7	-	(7)	-
Sales domestic/ abroad	-	-	-	-	-	-
Total segment revenues	**869 883**	**511 297**	**1 381 180**	**-**	**(7)**	**1 381 173**

As at 31.12.2017 *Audited*	Continued operations					
	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Operating assets	977 469	672 562	1 650 031	-	(217 587)	1 432 444
Segment liabilities*	476 153	170 514	646 667	-	(83 374)	563 293

** short-term liabilities were allocated to assess segment*

As at 31.12.2016 *Audited*	Continued operations					
	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Operating assets	850 694	702 575	1 553 270	-	(167 243)	1 386 026
Segment liabilities*	347 593	167 595	515 188	-	(47 972)	467 216

** short-term liabilities were allocated to assess segment*

(Data in PLN thousand, unless indicated otherwise)

13. Sales revenues

Sales revenues	Year ended	
	31.12.2017	**31.12.2016**
	Audited	**Audited**
Revenues from sale of goods and materials	1 288 103	1 329 616
Revenues from sale of other products and services	51 985	24 428
Total	34 203	27 129
Total	**1 374 291**	**1 381 173**

	-	-
	Year ended	
	31.12.2017	**31.12.2016**
	Audited	**Audited**
Abroad	948 270	869 800
Total	426 021	511 373
Total	**1 374 291**	**1 381 173**

Revenues from PKP PLK S.A constitute approximately 45% of the consolidated sales revenues, and revenues from Litewska Administracja Drogowa approximately 8%.

The Group's revenues are recognised in three operating segments which therefore are the reporting segments.

The aforementioned amounts relating to the division of sales into domestic and international differ from the amounts provided in Note "Information on segments" due to the exclusion of sale transactions between the segments described in Note 12.

14. Operating costs

Costs by type

	Year ended	
	31.12.2017	**31.12.2016**
	Audited	**Audited**
Depreciation	28 951	23 418
Consumption of materials and energy	524 779	421 178
External services	576 554	571 881
Taxes and charges	6 360	6 427
Payroll	162 402	161 177
Social security and other benefits	46 893	42 618
Other types of costs	16 754	35 714
Total costs by type	**1 362 693**	**1 262 413**
Change in inventories, products and prepayments	(57 702)	31 008
Cost of manufacture of products for the entity's own needs (negative value)	(16 860)	(17 030)
Cost of sales, marketing and distribution (negative value)	(5 430)	(6 261)
General and administrative costs (negative value)	(50 991)	(61 170)
Manufacturing cost of products sold	**1 231 710**	**1 208 960**
Value of materials and goods sold	**49 246**	**24 047**
Cost of goods sold	**1 280 956**	**1 233 007**

(Data in PLN thousand, unless indicated otherwise)

Costs of payroll and employee benefits:

	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Costs of payroll and employment termination benefits	154 531	138 052
Social security costs	40 441	35 375
Provisions for retirement pay and disability benefits	(870)	1 233
Provision for jubilee awards	(2 423)	1 116
Provision for unused leaves	7 839	8 096
Provision for bonuses	3 100	11 780
Provision due to competition clause and compensation	225	900
Employee benefits under Employee Pension Program	623	589
Other employee benefits	5 829	6 654
Total	**209 295**	**203 795**

The Parent Company has launched the Occupational Pension Scheme (Pracowniczy Program Emerytalny or PPE) which is entered in the register kept by KNUiFE [supervisory authority] under no. RPPE 75/01. In 2001 the Parent Company (then PKRE S.A.) concluded an agreement for the payment of employee contributions and a corporate pension agreement with the Trade Unions that operated in the Company. All the employee pension agreements and annexes thereto were concluded using a uniform format. In 2006 an annex was signed to the corporate pension agreement, which aligned the provisions of PPE with the provisions of the amended Act on the Occupational Pension Schemes.

Under the scheme, the employer transfers 4% of the employee's gross remuneration which forms a basis for calculating pension contributions to the selected fund. The scheme is voluntary, and employees willing to join it must have at least 3 months of service at the Parent Company.

Depreciation of tangible non-current assets and amortisation of intangible assets and their recognition in profit or loss:

	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Items recognised in cost of goods sold		
Depreciation of fixed assets	25 319	20 280
Amortisation of intangible assets	978	813
Total	**26 297**	**21 093**
Items recognised in cost of sales, marketing and distribution		
Depreciation of fixed assets	1	4
Amortisation of intangible assets	-	-
Total	**1**	**4**
Items recognised in general and administrative costs		
Depreciation of fixed assets	1 389	1 220
Amortisation of intangible assets	1 264	1 101
Total	**2 653**	**2 321**
Depreciation of fixed assets	26 709	21 504
Amortisation of intangible assets	2 242	1 914
Total	**28 951**	**23 418**

(Data in PLN thousand, unless indicated otherwise)

15. Other operating revenues

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Reversal of provision including:	2 186	1 691
- for restructuring	1 831	-
- for costs	105	278
- for claims and litigations	250	1 413
Profit from settlement of BTW acquisition transaction	-	7 112
Received penalties and fines	713	512
License fees , patents	-	280
Overpaid social security contributions	-	536
Reimbursed costs from tenders in Denmark	-	571
Redeemed liabilities	166	165
Profit on sale of non-financial non-current assets	1 059	2 991
Profit from investment property rent	175	298
Other	573	766
Total	**4 872**	**14 922**

16. Other operating costs

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Established provisions for liabilities	60	-
Restructuring costs	112	3 905
Damage of tangible non-current assets	523	-
Investment property valuation	863	252
Paid penalties, fines, compensations	-	329
Litigation costs paid	510	248
Donations made	311	3 895
Niedobory inwentaryzacyjne zapasów	299	-
Value of liquidated non-financial assets	80	587
Reorganization costs of the production division	-	131
Receivables revaluation write-offs	293	-
Written-off receivables	69	533
Other	548	434
Total	**3 668**	**10 314**

17. Financial revenue

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Financial revenues from interest, including:	5 799	4 457
- bank interest	244	623
- interest on receivables	1 026	85
- interest on released provisions for interest on liabilities	914	-
- of financial asset under the concession agreement	3 455	3 623
- other	160	126
Other financial revenues	89	68
Total	**5 888**	**4 525**

(Data in PLN thousand, unless indicated otherwise)

18. Financial expenses

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Financial costs on account of interest, including:	6 683	7 204
- interest on loans and borrowings	3 706	3 722
- on liabilities	502	6
- on leasing	1 768	1 611
- on liability from employee benefits	253	225
- on factoring	-	49
- on provisions for liabilities	-	989
- other	454	602
Loss from exchange rate differences	182	1 346
Costs related to sale of receivables	-	406
Factoring related costs	213	199
Write-downs of receivables' interest	912	-
Financial commision paid	2 500	1 694
Other financial costs	389	137
Total	**10 879**	**10 986**

(Data in PLN thousand, unless indicated otherwise)

19. Income tax

19.1. Current income tax

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Gross profit	**33 127**	**67 331**
Differences between gross profit (loss) and income tax base (by title)		
- temporary differences, including:	**(69 234)**	**536**
depreciation and amortisation	(7 990)	(4 970)
revaluation write-offs	586	(565)
change in provisions	(27 435)	28 449
wycena transakcji walutowych	35	-
valuation of construction contracts	(88 896)	(49 630)
accrued interest	(2 074)	744
accrued FX differences	(1 056)	584
provision for losses on contracts	(1 740)	5 076
remuneration unpaid	(135)	482
investment property fair value adjustment	(863)	252
non-tax costs concerning performed contracts	59 011	105 880
non-tax revenues concerning performed contracts	10 716	(86 237)
other	(9 391)	471
- permanent differences, including:	**(26 455)**	**10 430**
contributions to PFRON (National Disabled Persons Rehabilitation Fund)	1 303	956
donations made	312	3 880
budget interest	315	18
discontinued research and development works	-	-
insurance and membership fees	328	444
provision for losses on contracts	(32 335)	-
VAT difference	27	96
profit from revaluation of shares	-	(7 113)
goodwill impairment	-	11 799
share in profits of entity valued using equity method	-	(248)
cost of disputed contracts	-	(1 000)
revaluation write-offs	2 818	2 902
other	777	(1 303)
Income (loss)	**(62 562)**	**78 298**
Taxable income	**8 996**	**84 135**
Deductions from income	**(7 115)**	**(8 917)**
- tax loss from previous years	(7 115)	(1 175)
- donations	-	(7 743)
Income tax base	**1 881**	**75 217**
Income tax	**315**	**11 743**

(Data in PLN thousand, unless indicated otherwise)

Income tax in the income statement:

	Year ended	
	31.12.2017 Audited	**31.12.2016 Audited**
Current income tax:	**361**	**11 813**
- current income tax charge	315	11 743
- adjustments related to current income tax from previous years	45	70
Deferred tax:	**724**	**(814)**
- related to increase and decrease in temporary differences	724	(814)
Total	**1 084**	**10 999**

Income tax was partially determined according to the rate of 19% applicable to legal entities that operate in Poland. The tax rate applicable from January 1, 2017 to December 31, 2017 to the Trakcja Group's companies operating outside Poland was as follows: 15% in Lithuania, 22% in Sweden, 18% in Belarus, 18% in Ukraine and 10% in Bulgaria.

Reconciliation of the effective tax rate:

Reconciliation of the income tax on the gross profit before tax at a statutory tax rate and the income tax at the Group’s effective tax rate for the year ended December 31, 2017 and December 31, 2016 is provided in the table below:

	Year ended	
	31.12.2017 Audited	**31.12.2016 Audited**
Gross profit	**33 127**	**67 331**
Income tax at applicable income tax rate of 19%	6 294	12 793
Tax effect of the approach:	-	-
Use of tax losses from previous years	(877)	(212)
Revaluation of deferred tax assets	(37)	686
Effect of varied interest rate within the Group	(323)	(3 172)
Tax-free income and other income deductions	-	(3)
Tax revenues not constituting accounting revenues	4 113	(4)
Tax costs not constituting accounting costs	(3 247)	(1 640)
Non-tax revenues constituting accounting revenues	(11 775)	(795)
Non-tax costs constituting accounting costs	6 936	3 393
Share of profit of associate	-	(47)
Income tax expense at the effective tax rate 16% (2015: 29%)	**1 084**	**10 999**

(Data in PLN thousand, unless indicated otherwise)

19.2. Income tax recognised in other comprehensive income

	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Profit from revaluation referred into revaluation reserve		
Gross amount	-	(510)
Tax	-	(76)
Net amount	**-**	**(413)**
Actuarial gains (losses)		
Gross amount	(689)	1 190
Tax	108	(236)
Net amount	**(581)**	**954**
Cash flow hedging instruments		
Gross amount	1 313	(899)
Tax	(197)	135
Net amount	**1 116**	**(764)**
Foreign exchange differences on translation of foreign operations		
Gross amount	(19 952)	11 926
Tax	-	-
Net amount	**(19 952)**	**11 926**

19.3. Deferred income tax

The table below presents an effect of the deferred tax asset and the provision for deferred tax on the profit or loss and equity:

	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Deferred tax asset	**61 438**	**51 267**
- through profit or loss	60 531	49 873
- through equity	907	1 394
Provision for deferred tax	**59 411**	**48 628**
- through profit or loss	54 600	44 669
- through equity	4 811	3 959

The table below provides information on the periods in which, in keeping with the provisions of the corporate income tax act, deferred income tax assets may be deducted from tax losses:

As at 31.12.2017	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Defered tax assets concerning tax loss	4 296	4 491	3 653	1 438	200	**14 078**

As at 31.12.2016	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Defered tax assets concerning tax loss	467	811	447	614	198	**2 537**

As at December 31, 2017 the Group's unused tax losses were PLN 4 415 thousand (31.12.2016: PLN 5 785 thousand), because it was not likely that a future taxable profit would be generated, which would allow for such unused losses and tax credits to be deducted.

Assets uncapitalised or impaired due to unused tax losses, in accordance with the provisions of corporate income tax act, may be settled in the following periods:

(Data in PLN thousand, unless indicated otherwise)

As at 31.12.2017	2018	2019	2020	2021	2022	Total
The amount of not established/written down asset due to tax losses	334	1 985	2 010	85	1	**4 415**

As at 31.12.2016	2017	2018	2019	2020	2021	Total
The amount of not established/written down asset due to tax losses	1 115	578	1 995	2 012	85	**5 785**

(Data in PLN thousand, unless indicated otherwise)

Deferred tax assets **Title of temporary differences**	**1.01.2016** **Modified**	**Increase / Decrease**	**Full consolidation method for Subsidiary**	**31.12.2016** **Audited**	**Increase / Decrease**	**31.12.2017** **Audited**
Provision for bonuses	2 718	(605)	88	2 202	(294)	1 908
Provision for the audit	28	10	4	41	(1)	40
Provision for correction works	1 750	5 417	33	7 200	(4 353)	2 847
Provision for losses on contracts	105	772	-	877	(126)	751
Provisions for retirement and pensions	1 139	(106)	-	1 033	(237)	796
Provision for jubilee awards	1 332	(105)	-	1 227	(717)	510
Provision for unused leaves	1 603	119	46	1 769	213	1 982
Valuation allowance for trade receivables	956	(17)	108	1 047	(415)	632
Valuation allowance for other current assets	248	(99)	-	149	(1)	148
Unrealized foreign exchange losses	143	89	-	232	(146)	86
Accrued interest on liabilities	83	184	-	267	(259)	8
Interest on receivable write-offs	83	(34)	-	49	186	235
Non-tax costs related to ongoing long-term contracts	2 794	20 076	-	22 870	11 358	34 228
Surplus of invoiced revenues over actual revenues - valuation of long-term contracts	11 713	(7 600)	-	4 113	(2 676)	1 437
The positive difference between the balance sheet depreciation and the tax depreciation	78	7	-	85	(11)	74
Tax loss	1 927	407	203	2 537	11 541	14 078
Revaluation of fixed assets to fair value	289	-	-	289	(289)	-
Unpaid wages and unpaid social security contributions	272	89	-	361	16	377
Other	3 604	991	36	4 632	(2 694)	1 938
Variances due to currency translation	(86)	374	-	288	(926)	(638)
Total, before offsetting	**30 779**	**19 970**	**518**	**51 267**	**10 171**	**61 438**
The value of offsetting of deferred tax assets and deferred tax liabilities	(21 064)	(18 978)	(518)	(40 560)	(11 041)	(51 601)
Total, after offsetting	**9 715**	**992**	**-**	**10 707**	**(871)**	**9 836**

(Data in PLN thousand, unless indicated otherwise)

Provision for deferred tax **Title of temporary differences**	**1.01.2016** **Modified**	**Increase / Decrease**	**consolidation method for Subsidiary**	**31.12.2016** **Audited**	**Increase / Decrease**	**31.12.2017** **Audited**
Surpus of actual revenues over invoiced revenues - valuation of long-term contracts	1 451	1 941	-	3 392	13 586	16 978
Non-tax revenue relating to long-term contracts	-	16 385	-	16 385	(2 036)	14 349
The negative difference between the balance sheet depreciation and the tax deprecia	15 672	1 238	1 429	18 339	1 967	20 306
Unrealized foreign exchange profits	5	(5)	16	16	30	46
Interest accrued on deposits, on financial assets	76	47	-	123	135	258
The right to perpetual usufruct	755	(11)	-	744	(10)	734
Revaluation of fixed assets to fair value	2 946	(220)	1 318	4 044	(689)	3 355
Investment property fair value adjustment	2 129	(48)	-	2 081	(164)	1 917
Other	3 553	(438)	-	3 115	(981)	2 134
Variances due to currency translation	26	361	-	387	(1 053)	(666)
Total, before offsetting	**26 613**	**19 250**	**2 763**	**48 628**	**10 783**	**59 411**
The value of offsetting of deferred tax assets and deferred tax liabilities	(21 064)	(18 978)	(518)	(40 560)	(11 041)	(51 601)
Total, after offsetting	**5 549**	**272**	**2 245**	**8 068**	**(258)**	**7 810**

The Group decided not to disclose any changes in the period by principal and result due to the insignificance of the changes that are recognised through the revaluation reserve.

(Data in PLN thousand, unless indicated otherwise)

20. Discontinued operations

In 2017 and 2016 the Company did not discontinue any of its operations.

21. Earnings per share

Earnings per share for each period are calculated by dividing a net profit allocated to shareholders in the Parent Company for a given period by the weighted average number of shares outstanding in the reporting period concerned. Diluted earnings per share for each period are calculated by dividing a net profit allocated to shareholders in the Parent Company for a given period by the total of the weighted average number of ordinary shares outstanding during the reporting period concerned and all the potential dilutive shares.

Earnings per share:

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Net profit (loss) from continued operations	32 043	56 332
Net profit applied to calculate diluted earnings per share	32 043	56 332
Net profit attributable to shareholders of Parent entity applied to calculate diluted earnings per share	31 429	54 685
Number of issued shares (pcs)	**51 399 548**	**51 399 548**
Weighted average number of issued ordinary shares applied to calculate basic earnings per share (pcs)	51 399 548	51 399 548
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings per share	51 399 548	51 399 548

Profit (loss) per share attributable to shareholders during the period (in PLN per share):

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
- basic	0,62	1,10
- diluted	0,62	1,10

Profit (loss) per share on the continued operations, attributable to shareholders during the period (in PLN per share):

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
- basic	0,62	1,10
- diluted	0,62	1,10

Profit (loss) per share attributable to shareholders of the Parent Company during the period (in PLN per share):

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
- basic	0,61	1,06
- diluted	0,61	1,06

(Data in PLN thousand, unless indicated otherwise)

22. Tangible non-current assets

The structure of non-current assets is as follows:

	31.12.2017 Audited	31.12.2016 Audited
Fixed assets, including:	249 165	231 361
- land (including right of perpetual usufruct)	22 541	22 773
- buildings, premises, civil and water engineering structures	17 378	17 521
- technical equipment and machines	126 130	110 082
- vehicles	70 770	68 158
- other fixed assets	12 346	12 827
Fixed assets under construction	17 688	16 128
Total	**266 853**	**247 489**

Changes in non-current assets:

Financial year ended 31.12.2017 Audited	**Land, buildings and structures**	**Machines and equipment**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Total**
Net book value at the beginning of the year	**40 294**	**110 082**	**68 158**	**12 827**	**16 128**	**247 489**
Increases - purchase	1 165	30 285	11 855	3 681	11 464	58 450
Movements between categories	1 278	1 998	(31)	-	(3 245)	-
Sale	-	(812)	(288)	-	(5 635)	(6 735)
Liquidation	-	(69)	(52)	(5)	-	(126)
Depreciation	(2 209)	(13 015)	(7 951)	(3 534)	-	(26 709)
Other decreases	-	(450)	(37)	-	(992)	(1 479)
Variances due to currency translation	(609)	(1 889)	(884)	(623)	(32)	(4 037)
Net book value at the end of the year	**39 919**	**126 130**	**70 770**	**12 346**	**17 688**	**266 853**
As at 31.12.2017 Audited						
(Gross) cost or value from valuation	76 001	272 598	154 270	42 415	17 949	563 233
Depreciation and impairment write-offs	(35 473)	(144 579)	(82 616)	(29 446)	(229)	(292 343)
Variances due to currency translation	(609)	(1 889)	(884)	(623)	(32)	(4 037)
Net book value	**39 919**	**126 130**	**70 770**	**12 346**	**17 688**	**266 853**

Financial year ended 31.12.2016 Audited	**Land, buildings and structures**	**Machines and equipment**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Total**
Net book value at the beginning of the year	**40 476**	**72 104**	**61 663**	**9 797**	**10 192**	**194 232**
Increases - purchase	1 119	17 926	11 821	4 953	20 224	56 044
Full consolidation method for Subsidiary	-	25 242	1 920	62	1 968	29 192
Other increases	-	-	-	1 073	10	1 083
Movements between categories	1 048	3 571	-	-	(4 637)	(18)
Sale	(773)	(509)	(176)	(51)	(11 632)	(13 141)
Liquidation	-	(4)	(405)	(326)	-	(735)
Depreciation	(2 011)	(9 378)	(7 101)	(3 014)	-	(21 504)
Other decreases	-	(34)	-	-	-	(34)
Variances due to currency translation	433	1 165	436	333	4	2 371
Net book value at the end of the year	**40 294**	**110 082**	**68 158**	**12 827**	**16 128**	**247 489**
As at 31.12.2016 Audited						
(Gross) cost or value from valuation	72 779	230 881	141 943	38 265	16 345	500 213
Depreciation and impairment write-offs	(32 918)	(121 964)	(74 221)	(25 771)	(221)	(255 095)
Variances due to currency translation	433	1 165	436	333	4	2 371
Net book value	**40 294**	**110 082**	**68 158**	**12 827**	**16 128**	**247 489**

(Data in PLN thousand, unless indicated otherwise)

The ownership of non-current assets is as follows:

Ownership structure of fixed assets:	31.12.2017 Audited	31.12.2016 Audited
Proprietary	209 272	192 621
Used on the basis of lease, rental or other agreement, including leasing agreement	57 582	54 868
Total	**266 853**	**247 489**

Trakcja Group uses under finance leases the following tangible non-current assets:

As at 31.12.2017 Audited	Land, buildings and structures	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Value at the beginning of the period	-	39 216	32 518	133	202	**72 069**
Acumulated depreciation	-	(7 511)	(6 961)	(15)	-	**(14 487)**
Net book value	**-**	**31 705**	**25 557**	**118**	**202**	**57 582**

As at 31.12.2016 Audited	Land, buildings and structures	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Value at the beginning of the period	-	39 583	25 561	48	-	**65 192**
Acumulated depreciation	-	(5 460)	(4 816)	(48)	-	**(10 324)**
Net book value	**-**	**34 123**	**20 745**	**-**	**-**	**54 868**

The Group holds the right of perpetual usufruct of land classified to the “Land, Buildings and Structures” category, whose net value is PLN 24 284 thousand (31.12.2016: PLN 24 327 thousand).

Information on collateral established on tangible non-current assets is provided in Note 55.

23. Investment properties

Changes in investment properties in 2017 are presented in the table below:

	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
As at start of period (by type groups) - net value:	**21 226**	**21 976**
- land	18 729	18 920
- buildings, premises, civil and water engineering structures	2 497	3 056
Increases:	**21**	**412**
- land	21	412
- revaluation	21	399
- exchange rate differences	-	13
Decreases	**(1 150)**	**(1 162)**
- land	(1 150)	(603)
- revaluation	(884)	(603)
- disposal	(252)	-
- exchange rate differences	(14)	-
- buildings, premises, civil and water engineering structures	-	(559)
- revaluation	-	(559)
As at end of period (by type groups) - net value:	**20 097**	**21 226**
- land	17 600	18 729
- buildings, premises, civil and water engineering structures	2 497	2 497

The Group recognises investment properties at fair value. Fair value of the Group's investment properties as at December 31, 2017 and December 31, 2016 was estimated based on the valuation carried out as at those days by an independent expert with suitable professional qualifications in evaluating properties and with up-to-date experience in evaluating properties at the locations similar to those of the Group's assets. The Group also verifies the obtained opinions on fair value by analysing the data derived from the active market (market prices) of similar investment properties with similar location and in similar condition. Such analyses are carried out by persons who have knowledge of the market.

The Group's buildings classified as investment properties are measured applying the cost method. In accordance with IFRS 13, the cost method reflects the amount that would be necessary at a given moment in order to recreate the rate of return on a given asset (often called the current replacement cost). In many situations, the current replacement cost method is used for establishing fair value of mineral assets that are used in combination with other assets or with other assets and liabilities. The properties measured fall into the category of the regional market, and their construction elements are measured using the cost-based approach, the cost replacement method and the analysis ratios and integrated elements.

Fair value of land that forms part of the investment properties is measured through the reference to the market transaction prices for similar properties (comparable method). Comparative approach involves the measurement of the property based on the assumption that its value should be equal to the price for similar properties traded on the market, adjusted considering characteristics that differ such properties (i.e. location, development or surface) and determined taking into account changes in prices in time. Sensitivity analysis demonstrates that the comparable method is sensitive to changes in the prices of similar properties selected for evaluation.

The „Złoże kruszywa naturalnego Nowowola" property owned by PEUiM Sp. z o.o. was measured using the income method and the discounted income flow approach. This approach is based on the expected cash flows, unadjusted for risk, and the adjusted discount rate which takes into account a risk premium required by the participants in the market. The rate was calculated using the CAPM model and adopted at 10.39%. The valuation was based on the 10-year projections of income on the property. The value of income on the property was determined by the analysis of the local market data and the details regarding the deposit resources. The residual value of land after the completion of deposit production was determined on the basis of the analysis of average transaction prices for low-graded agricultural land in the Podlaskie Province. The income method is sensitive to the discount rate and the expected income flows from the property.

Sensitivity analysis shows that the market valuation model is sensitive mainly to the prices of similar properties selected for evaluation, and the cost model is sensitive to the replacement cost and the adopted degree of wear and tear.

Fair value is determined using techniques and methods which are appropriate considering the circumstances and for which sufficient data is available, with the maximum use of the relevant observable inputs and the minimum use of the unobservable inputs.

An effect of unobservable inputs on fair value of properties, depending on the measurement method adopted, is presented below.

(Data in PLN thousand, unless indicated otherwise)

	Valuation technique used	Unobservable input data	Link between unobservable input data and fair value
Office - land	Comparative approach	Location (20%) Accessibility (20%) Function in development plan/study (20%) Development state, size and shape of the plot (20%) Location, accessibility (10%) Ownership form (10%)	these factors affect the value of the weighting adopted in measuring the fair value of real estate
		Average market price of comparable real estate	an increase in the market value of comparable real estate will increase the fair value of real estate
Office and warehouse properties	Cost approach	Replacement cost value	increase in the replacement cost will increase the fair value of real estate
		Requisite degree of technical wear 50%-85%	higher the degree of technical wear adversely affect the fair value of the property
Land	Comparative approach	Location (35%) Accessibility (25%) Development state (20%) Size and shape of the plot (20%)	these factors affect the value of the weighting adopted in measuring the fair value of real estate
		Average market price of comparable real estate	an increase in the market value of comparable real estate will increase the fair value of real estate
Deposits of natural aggregates	Income approach	Discount rate 7,53 %	an increase in the discount rate would decrease the fair value of the property
		Wealth deposits 1 882,83 ths. tonnes	the expected size of the deposit growth will increase in the fair value of real estate
		Average sales price of aggregate 13,5 PLN/Mg	increase in the average sales price of aggregate will increase the fair value of the property

In 2017 the measurement method remained unchanged.

Investment properties were measured by an independent expert based on the market data as at December 31, 2017.

Fair value of the properties was estimated applying the most beneficial and the most advantageous use of the properties (the current use of such properties).

The measurement of investment properties as at December 31, 2017 demonstrated a decrease in their value in the amount of PLN 863 thousand which was recognised in the other operating costs.

The fair value hierarchy as at December 31, 2017 and as at December 31, 2016 was as follows:

	31.12.2017 Audited	Level 1	Level 2	Level 3
Investment property:	**20 097**	**-**	**-**	**20 097**
Offices	15 438	-	-	15 438
Land	1 715	-	-	1 715
Deposits of natural aggregates	2 944	-	-	2 944

	31.12.2016 Audited	Level 1	Level 2	Level 3
Investment property:	**21 226**	**-**	**-**	**21 226**
Offices	15 213	-	-	15 213
Land	2 185	-	-	2 185
Deposits of natural aggregates	3 828	-	-	3 828

Level 1 – quoted market prices for similar assets or liabilities in active markets;

(Data in PLN thousand, unless indicated otherwise)

Level 2 – prices in active markets other than the quoted market prices – set directly (by comparison with actual transactions) or indirectly (by application of measurement methods based on actual transactions);

Level 3 – prices other than prices in active markets.

No property was reallocated between levels 1, 2 and 3 during the financial year.

Reconciliation of the opening and closing balance of goodwill is as follows:

	Year ended	
	31.12.2017 Audited	**31.12.2016 Audited**
As at the beginning of the period (Level 3)	**21 226**	**21 976**
Sale	(252)	-
Gains (losses) recognized in profit and loss account	(863)	(252)
Gains (losses) included in revaluation reserve	-	(511)
Exchange rate differences	(14)	13
As at the end of the period (Level 3)	**20 097**	**21 226**
Unrealised profits (losses) in the period recognised in P&L (as other operating costs)	(863)	(252)

Revenues from rentals and direct operating costs regarding the investment properties were as follows:

	Year ended	
	31.12.2017 Audited	**31.12.2016 Audited**
Rental income from investment property	243	298
Direct operating costs from investment property that during the period generated rental income	175	293
Direct operating costs from investment property that during the period did not generate rental income	-	-

No collateral was established on the investment properties, which has been described in detail in Note 55.

24. Goodwill on consolidation

As at the balance sheet date, the Group's goodwill disclosed in the consolidated financial statements was PLN 376 728 thousand (31.12.2016: PLN 386 587 thousand) was recognised in the following items:

- Goodwill on consolidation: PLN 327 996 thousand (31.12.2016: PLN 337 855 thousand),

- Intangible assets: PLN 48 732 thousand (31.12.2016: PLN 48 732 thousand).

Goodwill on consolidation

	31.12.2017 Audited	**31.12.2016 Audited**
Goodwill at cost	389 528	399 387
Accumulated impairment	(61 532)	(61 532)
Goodwill after all write-offs	**327 996**	**337 855**

(Data in PLN thousand, unless indicated otherwise)

	31.12.2017 Audited	31.12.2016 Audited
Balance at the beginning of the period	**337 855**	**334 718**
Increase	**-**	**8 606**
Taking control over companies	-	8 606
Decreases	**-**	**(11 799)**
Impairment charged to P&L during the year	-	(11 799)
Exchange rate differences	**(9 859)**	**6 330**
Balance at the end of the period	**327 996**	**337 855**

An increase in the goodwill, which resulted from the acquisition of control over companies, is described in Note 3.1 hereto.

Allocation of goodwill to cash generating units ("CGU") after recognition of impairment losses

For the purpose of testing goodwill for impairment as at December 31, 2017, the goodwill was allocated to the following cash-generating units:

As at 31.12.2017 Audited	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Spółki z Gr.AB Kauno Tiltai	CGU: PRK7 Nieruchomości	Total
Allocated goodwill before recognition of write-downs	**58 160**	**37 741**	**276 047**	**4 780**	**376 728**
recognized in goodwill on consolidation	9 428	37 741	276 047	4 780	327 996
recognized in intangible assets	48 732	-	-	-	48 732

As at 31.12.2016 Audited	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Spółki z Gr.AB Kauno Tiltai	CGU: PRK7 Nieruchomości	Total
Allocated goodwill before recognition of write-downs	**58 160**	**37 741**	**285 906**	**4 780**	**386 587**
recognized in goodwill on consolidation	9 428	37 741	285 906	4 780	337 855
recognized in intangible assets	48 732	-	-	-	48 732

Test for impairment of goodwill

Goodwill allocated to all the cash-generating units was tested for impairment as at December 31, 2017. The recoverable value of CGU is determined using the value in use calculations. The calculations are based on the 5-year cash flow forecasts, except for PRK7 Nieruchomości Sp. z o.o., for which they are based on the 11-year cash flow forecasts. Cash flows for periods longer than five years, and 11 years for PRK7 Nieruchomości Sp. z o.o., are estimated at fixed level. A growth rate in the residual period is adopted at the level between 1.2% and 2%, and it does not exceed the long-term inflation rate. The Management Board determines the budgeted margin on the basis of historical results, updated contract budgets and its own expectations about market development. The average weighted growth rates are set in keeping with the forecasts provided in the industry reports. The discount rate applied is a rate after tax that reflects specific risks regarding individual segments, other than those included in the cash flow forecasts, calculated using the CAMP model.

Basis assumptions adopted for the purpose of testing goodwill for impairment:

(Data in PLN thousand, unless indicated otherwise)

As at 31.12.2017	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Companies from AB Kauno Tiltai Group	CGU: PRK7 Nieruchomości
WACC before taxation	10,1%	10,1%	7,9%	10,1%
EBITDA margin	3,8%-5,7%	6,6%-9,8%	5,7%-8,0%	2,8%-9,9%
Growth rate in the residual period	2%	2%	2%	1,2%

As at 31.12.2016	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Companies from AB Kauno Tiltai Group	CGU: PRK7 Nieruchomości
WACC before taxation	10,2%	10,2%	7,5%	10,2%
EBITDA margin	2,9%-4,4%	6,0%-7,7%	7,4%-9,9%	-1,6%-8,4%
Growth rate in the residual period	2%	2%	2%	1,2%

Goodwill was tested for impairment as at December 31, 2017. No impairment losses were recognised. The test for impairment carried out as at December 31, 2016 recognised an impairment loss on the goodwill allocated to the CGU that comprised the following entities: PEUiM Sp. z o.o. , Dalba Sp. z o.o. and PDM Białystok S.A., in the amount of PLN 11 799 thousand. The impairment loss was disclosed as a separate item in the consolidated income statement.

The sensitivity analysis performed demonstrates that the key factors that affect the estimated value in use of the cash generating units are the profitability of the construction contracts and the adopted discount rate.

Sensitivity analysis of the recoverable value of the cash-generating units to changes in individual factors used in the test for impairment is as follows:

Sensitivity analysis for the CGU that consists of the following entities: Trakcja PRKiI, Torprojekt Sp. z o.o. and BTW Sp. z o.o.

Factor applied	Reasonably possible change of the factor	The impact on the recoverable amount of cash generating unit	
		increase	decrease
EBITDA	+/- 2,5%	18 569	(18 569)
WACC	+/- 0,25%	(17 333)	18 458

The Group performed sensitivity analysis for changes in EBITDY +/- 2.5% and in WACC +/-0.25%, which demonstrated that a rational change in assumptions would not result in an impairment loss being recognised.

Sensitivity analysis for the CGU that consists of the following entities: PEUiM Sp. z o.o., Dalba Sp. z o.o. and PDM Białystok S.A.

Factor applied	Reasonably possible change of the factor	The impact on the recoverable amount of cash generating unit	
		increase	decrease
EBITDA	+/- 2,5%	2 959	(2 959)
WACC	+/- 0,25%	(2 675)	2 847

Sensitivity analysis for the CGU that consists of the entities that are members of AB Kauno Tiltai Group

Factor applied	Reasonably possible change of the factor	The impact on the recoverable amount of cash generating unit	
		increase	decrease
EBITDA	+/- 2,5%	27 228	(27 228)
WACC	+/- 0,25%	(28 844)	31 426

(Data in PLN thousand, unless indicated otherwise)

The Group performed sensitivity analysis for changes in EBITDY +/- 2.5% and in WACC +/-0.25%, which demonstrated that a rational change in assumptions would not result in an impairment loss being recognised.

Sensitivity analysis for the CGU that comprises PRK7 Nieruchomości

Factor applied	Reasonably possible change of the factor	The impact on the recoverable amount of cash generating unit	
		increase	decrease
EBITDA	+/- 2,5%	1 397	(1 397)
WACC	+/- 0,25%	(1 562)	1 658

The Group performed sensitivity analysis for changes in EBITDY +/- 2.5% and in WACC +/-0.25%, which demonstrated that a rational change in assumptions would not result in an impairment loss being recognised.

25. Intangible assets

Structure of the intangible assets:

	31.12.2017 Audited	31.12.2016 Audited
Research and development costs	2 010	2 953
Goodwill	48 732	48 732
Acquired concessions, patents, licences and similar items of value,	2 527	3 270
- software	2 176	2 885
Other tangible non-current assets	5	2
Intangible assets under construction	479	334
Total	**53 753**	**55 291**

Changes in the intangible assets:

Financial year ended 31.12.2017 Audited	Research and development expenses	Goodwill	Software licences	Other licences, concessions, patents	Other intangible assets	Intangible assets under construction	Total
Net book value at the beginning of the year	**2 953**	**48 732**	**2 885**	**385**	**2**	**334**	**55 291**
Increases	54	-	530	32	6	144	**766**
Liquidation	-	-	(12)	-	-	-	**(12)**
Amortization	(990)	-	(1 186)	(63)	(3)	-	**(2 242)**
Variances due to currency translation	(7)	-	(41)	(2)	-	-	**(50)**
Net book value at the end of the year	**2 010**	**48 732**	**2 176**	**352**	**5**	**478**	**53 753**
As at 31.12.2017 Audited							
(Gross) cost or value from valuation	8 597	48 732	9 709	704	682	478	**68 902**
Amortization and impairment write-offs	(6 580)	-	(7 492)	(350)	(677)	-	**(15 099)**
Variances due to currency translation	(7)	-	(41)	(2)	-	-	**(50)**
Net book value	**2 010**	**48 732**	**2 176**	**352**	**5**	**478**	**53 753**

(Data in PLN thousand, unless indicated otherwise)

Financial year ended 31.12.2016 Audited	**Research and development expenses**	**Goodwill**	**Software licences**	**Other licences, concessions, patents**	**Other intangible assets**	**Intangible assets under constructio n**	**Total**
Net book value at the beginning of the year	**2 747**	**48 732**	**3 562**	**412**	**6**	**1 144**	**56 603**
Increases	148	-	377	33	38	100	**697**
Full consolidation method for Subsidiary	-	-	24	-	-	-	**24**
Movements	911	-	-	-	-	(911)	**-**
Likwidacja	-	-	(117)	-	-	-	**(117)**
Amortization	(859)	-	(987)	(60)	(8)	-	**(1 914)**
Inne zmniejszenia	-	-	-	-	(34)	-	**(33)**
Variances due to currency translation	6	-	26	-	-	-	**32**
Net book value at the end of the year	**2 953**	**48 732**	**2 885**	**385**	**2**	**334**	**55 291**
As at 31.12.2016 Audited							
(Gross) cost or value from	8 472	48 732	9 071	671	636	334	**67 916**
Amortization and impairment write-offs	(5 525)	-	(6 212)	(286)	(634)	-	**(12 657)**
Variances due to currency translation	6	-	26	-	-	-	**32**
Net book value	**2 953**	**48 732**	**2 885**	**385**	**2**	**334**	**55 291**

Ownership structure of the intangible assets:

	31.12.2017 Audited	**31.12.2016 Audited**
Proprietary	53 753	55 291
Total	**53 753**	**55 291**

In 2017 and 2016 the Group did not recognise any costs that were not capitalised as research and development expenses in the intangible assets.

26. Other financial assets

	31.12.2017 Audited	**31.12.2016 Audited**
Financial assets held to maturity	**17 435**	**9 896**
Bank guarantees deposits	17 222	9 896
Udzielone pożyczki i należności własne	213	-
Loans granted and own receivables	**41 571**	**45 266**
Financial assets related to the concession agreement	41 571	45 266
Total	**59 006**	**55 162**
including:		
- recognised as non-current assets	44 147	46 502
- recognised as current assets	14 859	8 660

In 2017 there were no impairment losses recognised on the individual financial assets.

(Data in PLN thousand, unless indicated otherwise)

27. Joint operations

27.1. Joint ventures

In 2016 the Group held 50% of shares in Bahn Technik Wrocław Sp. z o.o. ("BTW"), classified as a joint venture, whose financial data for 2016 was consolidated under the equity method according to IFRS 11. As a result of the acquisition of the additional 50% of shares in BTW the Group became the sole shareholder in BTW on December 30, 2016. As at December 31, 2016 and in 2017 BTW was fully consolidated. The transaction is described in detail in Note 3.1 hereof.

Please find below the condensed data of BTW:

	Year ended 31.12.2016 Audited
Sales revenues	32 754
Cost of goods sold	(31 841)
including: Depreciation	(3 104)
Financial income	131
including: Interest income	6
Financial costs	(388)
including: Interest cost	(54)
Income tax	(160)
Net result from continued operations	**496**
Net result from discontinued operations	-
Other comprehensive income	-
Total comprehensive income	**496**
Group's share of profit for the year from continued operations (50%)	248
Group's share of total comprehensive income for the year from continued operations (50%)	248

27.2. Jointly controlled operations – contracts performed in consortia

The Group performs certain long-term contracts under consortium agreements, as the consortium leader, without establishing separate entities. The Group recognises shares in such contracts as shares in joint operations in accordance with IFRS 11. Therefore, the Group does not recognise in profit or loss any such part of the revenues or costs related to such contracts as is attributable to the consortium members.

The table below presents revenues and costs attributable to the consortium members, regarding contracts performed under the aforementioned consortium agreements other than these recognised in profit or loss.

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Sales revenues	181 400	103 166
Cost of goods sold	(180 915)	(105 329)
Gross profit on sales	**485**	**(2 163)**

The Group's balance sheet as at December 31, 2017 does not include the trade liabilities attributable to the consortium members in the amount of PLN 36 125 thousand (31.12.2016: PLN 37 342 thousand or the trade liabilities attributable to the consortium members in the amount of PLN 36 935 thousand (31.12.2016: PLN 40 346).

(Data in PLN thousand, unless indicated otherwise)

28. Prepayments

Structure of the prepayments by type:

	31.12.2017 Audited	31.12.2016 Audited
Prepayments, including:	16 176	7 649
- insurance and insurance guarantees	11 616	4 695
- PKP (Polish Railways) identification documents	65	-
- repair and maintenance of wagons, locomotives	4 495	2 954
Other prepayments and accruals	971	1 000
Total	**17 147**	**8 649**

Structure of the prepayments by maturity:

	31.12.2017 Audited	31.12.2016 Audited
Long-term	7 914	2 630
Short-term	9 233	6 019
Total	**17 147**	**8 649**

29. Inventory

	31.12.2017 Audited	31.12.2016 Audited
Materials	63 012	39 386
Semi-finished goods and products in progress	8 011	4 426
Finished goods	13 624	22 722
Merchandise	10 014	10 015
Total, gross inventory	**94 661**	**76 549**
Inventory revaluation write-offs	**(634)**	**(688)**
Materials	62 426	38 746
Semi-finished goods and products in progress	8 011	4 426
Finished goods	13 597	22 695
Merchandise	9 993	9 994
Total, net inventory	**94 027**	**75 861**

The costs of inventory recognised in the operating costs of the current period were PLN 510 566 thousand (PLN 387 474 thousand in 2016).

Changes in write-downs of inventory:

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Balance at the beginning of the period	**688**	**1 194**
Increases	**75**	**1 055**
Establishment	75	1 055
Decreases	**(102)**	**(1 578)**
Use	-	-
Dissolution	(102)	(1 578)
Exchange rate differences	**(28)**	**17**
Balance at the end of the period	**634**	**688**

Write-downs of inventory are recognised and reversed as the "Cost of goods sold" item in the consolidated profit or loss. Write-downs of inventory are governed by the principles set forth in Note 9.12.

(Data in PLN thousand, unless indicated otherwise)

Inventory is encumbered with collateral, as described in Note 55.

30. Trade and other receivables

Structure of the trade and other receivables:

	31.12.2017 Audited	31.12.2016 Audited
Gross trade receivables, before discounting	**334 961**	**378 589**
Discounting of receivables	-	-
Total, gross trade receivables	**334 961**	**378 589**
including:		
- receivables from related entities	2 780	5 798
Budgetary receivables	1 942	3 610
Receivables claimed in court	4 320	3 354
Other receivables from third parties	25 692	15 308
Amounts held	25 859	20 922
Advances paid	938	3 806
Total, gross trade and other receivables	**393 712**	**425 589**
Receivables revaluation write-offs	(69 617)	(26 003)
Total	**324 094**	**399 586**

Receivables from the Company's related parties are specified in Note 57.

Trade receivables and amounts held:

	31.12.2017 Audited	31.12.2016 Audited
Net trade receivables		
With maturity within 12 months	305 365	382 045
With maturity over 12 months	10 653	5 313
Discounting of receivables	-	-
Total, net trade receivables after discounting	**316 018**	**387 358**

Receivables due within the period over 12 months include amounts held which are additional guarantees for the proper performance of contracts.

The Company discontinued disclosing the discounted long-term receivables due to their insignificance.

The maturity structure of the amounts held is presented in the table below.

	31.12.2017 Audited	31.12.2016 Audited
Up to 12 months	22 254	16 928
Over 12 months	3 605	3 994
Total	**25 859**	**20 922**

Trade receivables bear no interest and are usually due in 30 days.

The Group’s policy is to sell to the validated customers only. Therefore, in the management's opinion, there is no additional credit risk in excess of write-downs of non-collectable receivables as established for the Group's trade receivables. As at the balance sheet date 31% of the Group’s total receivables are receivables due from PKP PLK S.A.

Due to a short-term nature of trade receivables their carrying amount is close to their fair value.

(Data in PLN thousand, unless indicated otherwise)

Changes in impairment losses on receivables:

	Year ended	
	31.12.2017	**31.12.2016**
	Audited	**Audited**
As at start of period	**26 003**	**21 661**
Increases	**47 796**	**5 242**
Establishment	47 796	3 934
Full consolidation method for a new Subsidiary	-	1 308
Decreases	**(4 235)**	**(948)**
Use	(971)	(128)
Dissolution	(3 264)	(819)
Variances due to currency translation	**53**	**48**
As at end of period	**69 617**	**26 003**

Impairment losses on trade and other receivables are recognised and reversed in the cost of goods sold.

The impairment losses on receivables in 2017 include receivables from contractual penalties imposed on subcontractors in the amount of PLN 32 147 thousand, which in accordance with the prudence principle are recognised as impairment losses until they are collected.

Trade receivables and amounts held by maturity are as follows:

	31.12.2017	**31.12.2016**
	Audited	**Audited**
Up to 1 month	144 135	207 130
From 1 month to 3 months	76 444	117 530
From 3 months to 6 months	4 035	14 428
From 6 months to 1 year	1 416	19
More than 1 year	11 952	6 782
Overdue receivables	78 036	41 469
Total, net trade receivables	**316 018**	**387 358**

The structure of overdue trade receivables and amounts held is as follows:

	31.12.2017	**31.12.2016**
	Audited	**Audited**
Up to 1 month	23 215	24 275
From 1 month to 3 months	40 437	1 309
From 3 months to 6 months	6 479	10 603
From 6 months to 1 year	39 466	2 738
More than 1 year	13 242	12 814
Total, gross overdue trade receivables	**122 839**	**51 739**
Receivables revaluation write-offs	(44 803)	(10 270)
Total, net overdue trade receivables	**78 036**	**41 469**

The structure of trade receivables and other receivables by currency is as follows:

	31.12.2017	**31.12.2016**
	Audited	**Audited**
In PLN	312 492	318 521
In foreign currencies - after conversion into PLN, including:	81 220	107 068
in EUR	76 369	98 535
in SEK	4 404	8 524
in BGN	447	9
Total	**393 712**	**425 590**

(Data in PLN thousand, unless indicated otherwise)

Receivables claimed in court:

	31.12.2017 Audited	31.12.2016 Audited
Receivables claimed in court	4 320	3 354
Revaluation write-offs on receivables claimed in court	(4 318)	(3 354)
Total	**2**	**-**

31. Cash and cash equivalents

Cash at bank bears interest at variable interest rates which depend on the daily interest rate of bank deposits.

Short-term deposits have terms which differ from one day to one month depending on the Group's actual requirement for cash and they bear interest accrued according to the negotiated interest rates.

Cash and cash equivalents disclosed in the consolidated balance sheet and in the consolidated statement of cash flows consisted of the following items:

	31.12.2017 Audited	31.12.2016 Audited
Cash in hand	121	167
Cash at bank	90 012	127 581
Other cash - deposits	22 052	21 050
Other cash - escrow account	-	-
Total cash and cash equivalents	**112 184**	**148 799**
Cash and cash equivalents excluded from cash flow statement	(12)	(2 439)
Cash and cash equivalents presented in cash flow statement	**112 172**	**146 360**

Cash excluded from the statement of cash flows as at December 31, 2017 comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.
The structure of cash and its equivalents by currency is as follows:

	31.12.2017 Audited	31.12.2016 Audited
In PLN	42 703	34 019
In foreign currencies - after conversion into PLN, including:	69 482	114 780
in EUR	58 640	110 647
in USD	3	4
in BYR	9	7
in SEK	10 823	4 036
in DKK	1	1
in BGN	5	86
Total	**112 184**	**148 799**

(Data in PLN thousand, unless indicated otherwise)

Cash at bank – ratings:

	31.12.2017 Badane	31.12.2016 Badane
Bank z oceną ratingową AA-	69 402	53 164
Bank z oceną ratingową A+	1	61 464
Bank z oceną ratingową A	131	267
Bank z oceną ratingową A-	2 119	2 372
Bank z oceną ratingową BBB+	3 083	-
Bank z oceną ratingową BBB	25 890	26 878
Bank z oceną ratingową BBB-	24	66
Bank z oceną ratingową BB	4 577	1 531
Bank z oceną ratingową BB-	1	-
Bank z oceną ratingową B+	5 959	2 577
Bank bez oceny ratingowej	96	62
Razem	**111 283**	**148 381**
Środki pieniężne w kasie	121	167
Saldo ZFŚS (nota 62)	780	251
Środki pieniężne na koniec okresu	**112 184**	**148 799**

Ratings assigned by first-class rating agencies (Fitch and S&P).

	31.12.2017 Audited	31.12.2016 Audited
Bank with AA- rating	69 402	53 164
Bank with A+ rating	1	61 464
Bank with A rating	131	267
Bank with A- rating	2 119	2 372
Bank with BBB+ rating	3 083	-
Bank with BBB rating	25 890	26 878
Bank with BBB- rating	24	66
Bank with BB rating	4 577	1 531
Bank with BB- rating	1	-
Bank with B+ rating	5 959	2 577
Bank without rating	96	62
Total	**111 283**	**148 381**
Cash in hand	121	167
Company Social Benefit Fund balance (note 62)	780	251
Cash at the end of the period	**112 184**	**148 799**

(Data in PLN thousand, unless indicated otherwise)

32. Construction contracts and advances towards contracts in progress

	31.12.2017 Audited	31.12.2016 Audited
Surplus of invoiced revenues over revenues resulting from degree of advancement	12 294	25 312
Surplus of revenues resulting from degree of advancement over invoiced revenues	108 819	32 508
Advances paid towards contracts being performed	37 968	3 575
Advances received towards contracts being performed	146 588	6 364
Provision for anticipated losses on contracts	12 465	48 756
Recognised in balance sheet:		
in non-current assets		
Construction contracts	**-**	**-**
in current assets		
Construction contracts	**146 787**	**36 083**
in short-term liabilities		
Construction contracts	**171 347**	**80 432**

Advances received towards contracts in progress increased due to the award of new contracts to the Group. Advances towards contracts in progress are disclosed as short-term liabilities and settled during the performance of contracts as part of the Company's normal operating cycle.

33. Capital risk management

The Group manages a capital risk in order to keep the Group capable of continuing its operations and maintaining the optimal capital structure for the purpose of ensuring a return on investment to its shareholders. In order to maintain or adjust the capital structure, the Group may issue new shares, change the amount of dividends paid to its shareholders, increase debt or decrease debt through the realisation of assets. The Group monitors its capital structure using debt ratios. The ratios analysed by the Group, as presented in the below table, allow for the good credit rating to be maintained and confirm that the Group's capital structure supports its operating activities.

	31.12.2017 Audited	31.12.2016 Audited
Equity to assets ratio	0,52	0,55
Equity to non-current assets ratio	1,03	1,07
Debt ratio	0,48	0,45
Debt to equity ratio	0,91	0,81

The above ratios have been calculated according to the following formulas:

Equity to assets ratio = Equity attributable to shareholders of Parent entity / total assets

Equity to non-current assets ratio = Equity attributable to shareholders of Parent entity / non-current assets

Debt ratio = (total assets - equity attributable to shareholders of Parent entity) / total assets

Debt to equity ratio = (total assets - equity attributable to shareholders of Parent entity) / equity attributable to shareholders of Parent entity

(Data in PLN thousand, unless indicated otherwise)

34. Equity

Share capital

As at December 31, 2017 and as at the preparation hereof, the Parent Company's share capital, in accordance with the entry in the National Court Register, was PLN 41 119 638.40 and was divided into 51 399 548 ordinary shares with a nominal value of PLN 0.80 per share. Each share constitutes one vote at the General Meeting of Shareholders. All shares are fully paid-up.

To the best knowledge of the Issuer's Management Board and in accordance with the notifications referred to in Article 69 referred to in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, shareholders that hold directly or through subsidiaries at least 5% of the total number of votes at the General Meeting of Shareholders as at the approval hereof were as follows:

Shareholders	Number of shares	% In the share capital	Number of votes	% In votes at GSM
COMSA S.A.*	16 156 193	31,43%	16 156 193	31,43%
Nationale-Nederlanden OFE	5 111 908	9,95%	5 111 908	9,95%
OFE PZU "Złota Jesień"	4 349 650	8,46%	4 349 650	8,46%
Other shareholders*	25 781 797	50,16%	25 781 797	50,16%
Total	**51 399 548**	**100,00%**	**51 399 548**	**100,00%**

*As a result of the acquisition by COMSA S.A. of shares in the Parent Company, notification of which was provided in Current Report No. 19/2017 and Current Report No. 20/2017, the number of shares held by COMSA S.A. increased in total by 313 000 shares. As neither Nationale-Nederlanden OFE nor OFE PZU Złota Jesień announced that they had sold their shares in the Parent Company, it was assumed that the shares were sold by other shareholders.

The shareholdership of TRAKCJA PRKiI S.A. determined in accordance with the notifications received (see above) differs from the shareholdership determined in accordance with the list of shareholders present at the last Ordinary General Meeting.

Shareholders holding at least 5% of the total number of votes, present at the Ordinary General Meeting held on June 27, 2017 were as follows:

Shareholders	Number of shares	% In the share capital	% In votes at GSM
COMSA S.A.	15 843 193	51,33%	30,82%
Nationale-Nederlanden OFE	4 890 000	15,84%	9,51%
OFE PZU "Złota Jesień"	4 839 000	15,68%	9,41%
AVIVA OFE AVIVA BZ WBK	2 569 000	8,32%	5,00%*
Other shareholders	23 258 355	8,83%	45,26%
Total	**51 399 548**	**100,00%**	**100,00%**

**AVIVA OFE AVIVA BZ WBK: 4.9981% of share in the total number of votes*

Since the publication of the last current report, i.e. since November 14, 2017, the Parent Company has not received any notifications from its shareholders informing it about any change in the total number of votes in the Parent Company.

Share premium account

As at December 31, 2017 the total surplus of the issue value over the nominal value of shares was PLN 309 984 thousand, and did not change in comparison to its value as at December 31, 2016.

Other capital reserves

Other capital reserves include:

- Previous years' profits – capital arising from profits generated in the preceding financial years. The Parent Company is obliged to create a supplementary capital from at least 8% of the profit generated for a given financial year until it amounts to at least one third of share capital. Such capital reserves are non-distributable.

- Hedging instruments – an effective part of changes in fair value of derivative instruments classified as cash flow hedges are recognised in other comprehensive income and accumulated in capital reserves for cash flow hedges. Such capital reserves are non-distributable.

- Actuarial gains (losses) – the Group recognises actuarial gains and losses on provisions for employee benefits in other comprehensive income and accumulates them in capital reserves. Such capital reserves are non-distributable.

Revaluation reserve

Revaluation reserve includes mainly remeasurement effects caused by a change in the purpose of non-current assets.

Foreign exchange differences from conversion of foreign currencies

As a result of the 2011 acquisition of companies whose functional currency until December 31, 2014 was the Lithuanian litas (LTL), and from January 1, 2015 is the euro, the Parent Company translates the financial statements of these companies into the presentation currency which is PLN. Any foreign currency differences arising from such a translation are recognised directly in equity as a separate item. The foreign exchange differences arising from the translation at the end of 2017 were PLN 7 093 thousand.

Undistributed profit/loss

The Group's undistributed profit or loss is the current profit or loss for a given financial year. Dividends may be distributed based on the financial profit specified in the separate annual financial statements of the Parent Company drawn up for statutory objectives.

(Data in PLN thousand, unless indicated otherwise)

Other comprehensive income by equity component

	Equity attributable to shareholders of parent entity								
	Share capital	Share premium	Revaluation reserve	Other capital reserves	Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interest	Total equity
As at 31.12.2017									
Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:	**-**	**-**	**-**	**(571)**	**-**	**-**	**(571)**	**(10)**	**(581)**
Gains on revaluation charged to revaluation reserve	-	-	-	-	-	-	-	-	-
Actuarial gains/(losses)	-	-	-	(571)	-	-	(571)	(10)	(581)
Other comprehensive income, which will be reclassified to profit or loss:	**-**	**-**	**-**	**822**	**(19 831)**	**-**	**(19 009)**	**173**	**(18 836)**
Foreign exchange differences on translation of foreign operations	-	-	-	-	(19 831)	-	(19 831)	(121)	(19 952)
Cash flow hedging instruments	-	-	-	822	-	-	822	294	1 116
Other comprehensive net income	**-**	**-**	**-**	**251**	**(19 831)**	**-**	**(19 580)**	**163**	**(19 417)**

(Data in PLN thousand, unless indicated otherwise)

	Equity attributable to shareholders of parent entity								
	Share capital	Share premium	Revaluation reserve	Other capital reserves	Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interest	Total equity
As at 31.12.2016									
Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:	**-**	**-**	**(413)**	**959**	**-**	**-**	**546**	**(5)**	**541**
Gains on revaluation charged to revaluation reserve	-	-	(413)	-	-	-	(413)	-	(413)
Actuarial gains/(losses)	-	-	-	959	-	-	959	(5)	954
Other comprehensive income, which will be reclassified to profit or loss:	**-**	**-**	**-**	**(564)**	**11 853**	**-**	**11 289**	**(127)**	**11 162**
Foreign exchange differences on translation of foreign operations	-	-	-	-	11 853	-	11 853	73	11 926
Cash flow hedging instruments	-	-	-	(564)	-	-	(564)	(200)	(764)
Other comprehensive net income	**-**	**-**	**(413)**	**395**	**11 853**	**-**	**11 835**	**(132)**	**11 703**

(Data in PLN thousand, unless indicated otherwise)

35. Non-controlling interests

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
As at start of period	**4 830**	**3 950**
Increases, including:	**781**	**1 515**
- share of total income for the period	777	1 515
- other	4	
Decreases, including:	**(556)**	**(635)**
- dividend paid to non-controlling interest	(556)	(580)
- other	-	(55)
As at end of period	**5 055**	**4 830**

Having analysed the amounts of equity attributable to the non-controlling interests, the Management Board of the Parent Company decided that they are insignificant, and therefore are not to be described in detail in these financial statements, in accordance with IFRS 12.

(Data in PLN thousand, unless indicated otherwise)

36. Provisions

	Provisions for recultivation	Provision for costs	Provisions for litigious liabilities	Provisions for correction works	Provision for noncompetition payments and other compensation	Provision for restructuring	Provisions for bonuses	Provisions for audit costs	Other provisions	Total
As at 1.01.2017 Modified	**2 863**	**302**	**1 087**	**39 391**	**900**	**1 831**	**13 370**	**286**	**2 973**	**63 003**
Recognised in income statement:										
- provision creation	-	-	-	2 995	225	-	6 988	347	722	11 276
- movements between categories	-	-	-	-	-	-	-	-	-	-
- release of unused provisions	-	-	(250)	(20 498)	-	(1 831)	(3 888)	(100)	(1 935)	(28 502)
- use of provisions	(25)	(302)	(29)	(8 828)	(750)	-	(8 392)	(252)	(136)	(18 714)
- variances due to currency translation	(163)	-	(11)	(189)	-		(502)	(4)	(100)	(968)
Total	**(188)**	**(302)**	**(290)**	**(26 520)**	**(525)**	**(1 831)**	**(5 794)**	**(9)**	**(1 449)**	**(36 906)**
As at 31.12.2017 Audited	**2 675**	**-**	**797**	**12 871**	**375**	**-**	**7 576**	**277**	**1 525**	**26 096**

(Data in PLN thousand, unless indicated otherwise)

	Provisions for recultivation	Provision for costs	Provisions for litigious liabilities	Provisions for correction works	Provision for noncompetition payments and other compensation	Provision for restructuring	Provisions for bonuses	Provisions for audit costs	Other provisions	Total
As at 1.01.2016 Audited	**788**	**1 286**	**2 768**	**9 462**	**1 529**	**-**	**15 692**	**215**	**1 152**	**32 892**
Recognised in income statement:										
- provision creation	-	-	113	39 192	900	2 431	11 780	351	3 353	58 120
- movements between categories	2 018	-	-	-	-	-	-	-	-	2 018
- release of unused provisions	-	-	(1 763)	(827)	-	-	-	-	(256)	(2 847)
- use of provisions	-	(984)	(37)	(8 625)	(1 529)	(601)	(15 044)	(299)	(1 376)	(28 494)
- full consolidation method for a new Subsidiary	-	-	-	74	-	-	464	19	100	657
- variances due to currency translation	57	-	5	115	-	-	478	-	-	655
Total	**2 075**	**(984)**	**(1 681)**	**29 929**	**(629)**	**1 831**	**(2 322)**	**71**	**1 821**	**30 111**
As at 31.12.2016 Audited	**2 863**	**302**	**1 087**	**39 391**	**900**	**1 831**	**13 370**	**286**	**2 973**	**63 003**

(Data in PLN thousand, unless indicated otherwise)

Maturity of the provisions:

	31.12.2017 Audited	31.12.2016 Audited
Long-term	11 917	27 650
Short-term	14 179	35 353
Total	**26 096**	**63 003**

Provisions for additional works are estimated based on the knowledge of individual contract directors with regard to the required or potential performance of additional works for the benefit of the contracting entity, in order to fulfil guarantee obligations.

In 2017 the Parent Company reversed the provision for restructuring in the amount of PLN 1 831 thousand. The provision is described in detail in Note 2.5. to the Report of the Management Board on the Activities of Trakcja Capital Group for 2016 and in Current Report No. 23/2016.

The circumstances which occurred in 2017 allowed the Group to release provisions for additional works in the amount of PLN 20 498 thousand.

37. Employee benefit liabilities

Provisions for retirement and pension benefits and jubilee bonuses:

	Year ended	
Provision for retirement and disability benefits	**31.12.2017 Audited**	**31.12.2016 Audited**
Beginning of period	**6 067**	**6 491**
Total costs recognised in profit and loss account:	(727)	1 413
- Interest costs	143	180
- Current service costs	890	1 239
- Past service costs	(1 760)	(7)
Actuarial losses (profit) recognised in other comprehensive income	(449)	(1 193)
Benefits paid	(541)	(739)
Exchange rate differences	(150)	95
End of period	**4 200**	**6 067**

	Year ended	
Provision for jubilee awards	**31.12.2017 Audited**	**31.12.2016 Audited**
Beginning of period	**6 458**	**7 009**
Total costs recognised in profit and loss account:	(2 312)	1 257
- Interest costs	111	142
- Current service costs	211	973
- Past service costs	(2 634)	-
- Actuarial gains / losses	-	142
Benefits paid	(1 464)	(1 808)
End of period	**2 682**	**6 458**

(Data in PLN thousand, unless indicated otherwise)

Provisions for unused holiday leaves and other employee benefits:

Provision for unused leaves	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
As at start of period Audited	**10 033**	**9 131**
Recognised in profit and loss account:		
- provision creation	8 266	8 506
- release of unused provision	(427)	(410)
- use of provision	(6 677)	(7 561)
Full consolidation method for a new Subsidiary	-	245
Variances due to currency translation	(188)	121
Total	**974**	**902**
As at end of period Audited	**11 007**	**10 033**

Maturity of the employee benefits liabilities:

	31.12.2017 Audited	31.12.2016 Audited
Long-term	5 127	11 134
Short-term	12 762	11 424
Total	**17 889**	**22 558**

Employee benefits maturity analysis:

	Provision for pension benefits	Provision for jubilee awards
During 1 year	802	887
From 1 to 4 years	890	1 682
Over 4 years	2 508	113
Total	**4 200**	**2 682**

The average weighted term of employee benefit liabilities upon the termination of employment is 4 years.

Rules for creating provisions for employee benefits:

The Group pays retirement benefits to employees who retire in the amount determined by the provisions of the Remuneration Regulations. Therefore, based on the valuation carried out using actuarial methods the Group creates a provision for the present value of liabilities from retirement and pension benefits and jubilee bonuses. On June 3, 2017 the Parent Company adopted a new version of the Remuneration Regulations, and therefore the provision for retirement and pension benefits and jubilee bonuses decreased.

The provision for employee benefits as at the end of 2017 was estimated using a discount rate of between 2.5% and 3.6% (31.12.2016: between 2.25% and 3.0 %). The average increase in remunerations in the Group was estimated at the level of between 1.8% and 3.3% (31.12.2016: between 1.8% and 3.3%).

The sensitivity analysis for employee benefit liabilities is presented in the table below.

Factor applied	Reasonably possible change of the factor	Liabilities due to employee benefits: increase	Liabilities due to employee benefits: decrease
Discount rate	+/- 1%	(292)	338
Salary growth	+/- 1%	296	(265)

(Data in PLN thousand, unless indicated otherwise)

The present value of future employee benefit liabilities corresponds to their carrying amount.

38. Interest-bearing loans and borrowings

Long-term interest-bearing loans and borrowings:

	31.12.2017 Audited	31.12.2016 Audited
Bank loans	49 309	56 395
- investment loans	15 307	17 478
- working capital loans	2 394	4 299
- project purpose loans	31 608	34 618
Loans from other entities	8 301	9 954
- investment loans	8 301	9 954
Financial lease liabilities	30 051	34 317
Total	**87 661**	**100 666**

Short-term interest-bearing loans and borrowings:

	31.12.2017 Audited	31.12.2016 Audited
Bank loans	8 678	7 830
- investment loans	6 260	5 122
- working capital loans	1 387	1 659
- project purpose loans	1 031	1 049
Loans from other entities	7 232	4 533
- investment loans	7 232	4 533
Financial lease liabilities	12 628	9 640
Total	**28 538**	**22 003**
Total short and long term loan and credits	**116 199**	**122 669**

Maturity of the Group's loans and borrowings by currency:

	31.12.2017 Audited	31.12.2016 Audited
In PLN	68 263	72 258
In foreign currencies - after conversion into PLN, including:	47 936	50 411
in EUR	47 936	50 411
Total	**116 199**	**122 669**

(Data in PLN thousand, unless indicated otherwise)

The table below presents the long- and short-term loans and borrowings as at December 31, 2017:

Company name	Lender	Type of loan/credit	Amount according to the agreement in the currency	Currency	Maturity date	Interests	Outstanding amount (in ths. PLN)
Trakcja PRKiI S.A.	mLeasing	investment loan	22 400	PLN	16.09.2019	WIBOR 1M + margin	8 761
Trakcja PRKiI S.A.	mBank S.A.	investment loan	21 500	PLN	30.09.2021	WIBOR 1M + margin	18 970
Trakcja PRKiI S.A.	mBank S.A.	overdraft	20 000	PLN	26.04.2018	WIBOR O/N + margin	-
Trakcja PRKiI S.A.	mBank S.A.	working capital loans	50 000	PLN	27.09.2019	WIBOR 1M + margin	-
Trakcja PRKiI S.A.	Pekao S.A.	working capital loans	20 000	PLN	31.05.2018	WIBOR 1M + margin	-
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	investment loan	1 747	PLN	30.11.2018	WIBOR 6M + margin	504
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	overdraft	2 500	PLN	28.02.2019	WIBOR 6M + margin	-
Bahn Technik Wrocław Sp. z o.o.	Plasser & Theurer, Export von Bahnbaumaschinen, Gesellschaft m.b.H.	investment loan	1 800	EUR	24.03.2020	fixed interest rate	5 631
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	investment loan	2 500	PLN	30.12.2020	WIBOR 1M + margin	2 093
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	overdraft	2 000	PLN	27.04.2018	WIBOR 1M + margin	-
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	working capital loans	3 000	PLN	27.04.2018	WIBOR 1M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital loans	14 000	EUR	31.08.2018	EURIBOR 3M + margin	-
AB Kauno Tiltai	Nordea	working capital loans	3 000	EUR	31.08.2018	EURIBOR 1M + margin	-
AB Kauno Tiltai	Dnb	working capital loans	3 000	EUR	31.08.2018	EURIBOR 3M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital loans	1 400	EUR	14.01.2020	EURIBOR 3M + margin	3 780
UAB Palangos aplinkkelis	SEB Bank	project purpose loans	8 500	EUR	31.05.2028	EURIBOR 3M + margin	32 639
UAB Pletros investicijos	Šiaulių plentas UAB	from other parties loan	363	EUR	31.12.2028	fixed interest rate	1 141
						Total	**73 520**

The interest rate of the loans and borrowings received is the WIBOR/EURIBOR rate plus a bank margin. Bank margins depend on the loan term and the client's creditworthiness.

The Group's available for use credit lines (overdrafts and working capital loans) as at December 31, 2017 were PLN 183 million. The Group also has been granted a factoring limit in the amount of PLN 50 000 thousand. The interest is calculated at the variable WIBOR O/N rate plus a factor's fixed margin.

(Data in PLN thousand, unless indicated otherwise)

Fair value of loans and borrowings closely corresponds to their carrying amounts.

39. Other financial liabilities

The Group's other financial liabilities consist of the factoring liabilities and other liabilities of a financial nature. As at December 31, 2016 and December 31, 2017 the Group had no liabilities arising from factoring.

The Group is a party to the recourse factoring agreement. The currently available limit is PLN 50 000 thousand. The interest is calculated at the variable WIBOR O/N rate plus a factor's fixed margin.

40. Financial derivatives

Derivaties	31.12.2017 Audited	31.12.2016 Audited
Fair value hedging (assets)	-	-
Fair value hedging (liabilities)	5 311	6 976
including:		
- recognized among non-current assets	-	-
- recognized among current assets	-	-
- recognized among long-term liabilities	4 351	5 957
- recognized among short-term liabilities	960	1 018

Cash flow hedging instruments and application of hedge accounting

The Polish companies of Trakcja Group do not apply any hedge accounting, but the Lithuanian part of Trakcja Group, namely AB Kauno Tiltai - AB Kauno Tiltai and UAB Palangos aplinkkelis follow the principles thereof.

On June 5, 2013 one of the Issuer's subsidiaries, i.e. UAB Palangos aplinkkelis made an interest rate swap (IRS) transaction in order to hedge future cash flows expected to arise from interest to be paid on the term loan. Pursuant to the contract, the company is a payee of amounts at a fixed rate, whereas the bank is a payee of amounts at a variable rate. The hedging relationship is set to expire on May 31, 2028.

On October 8, 2015 and October 14, 2015 one of the Issuer's subsidiaries, i.e. AB Kauno Tiltai made two interest rate swap (IRS) transactions in order to hedge future cash flows expected to arise from interest to be paid on the term loan. Pursuant to the contract, the company is a payee of amounts at a fixed rate, whereas the bank is a payee of amounts at a variable rate. The hedging relationships are set to expire on January 14, 2020.

Fair value of the IRS contracts is calculated as the present value of future cash flows estimated using the yield curves. In 2017 the measurement method remained unchanged.

As at December 31, 2017 a gain from remeasuring the aforementioned hedging instruments was recognised in liabilities in the amount of PLN 1 664 thousand, whereas a gain recognised in other comprehensive income was PLN 1 116 thousand.

In 2017 the Group assessed the effectiveness of the IRS hedging transactions. In the reporting period, the hedge of the interest rate fluctuations was highly effective, and therefore no ineffective part thereof was identified or recognised in profit or loss.

Other derivatives

In the reporting period, the Group did not enter into either any new interest rate swap (IRS) contracts or any derivative contracts for speculation purposes. Except for the aforementioned IRS instruments, the Group did not apply any hedge accounting in the periods subject hereto, and therefore the Group is not a party to any other derivative contracts in the scope covered hereby and no financial derivatives measured at fair value were recognised in profit or loss.

(Data in PLN thousand, unless indicated otherwise)

The Group categorises financial derivatives within Level 2 of the fair value hierarchy. In 2017 there were no transfers made between Levels 1, 2 and 3.

	31.12.2017 Audited	Level 1	Level 2	Level 3
Derivatives	**5 311**	-	5 311	-

	31.12.2016 Audited	Level 1	Level 2	Level 3
Derivatives	**6 976**	-	6 976	-

Level 1 – quoted market prices for similar assets or liabilities in active markets;

Level 2 – prices in active markets other than the quoted market prices – set directly (by comparison with actual transactions) or indirectly (by application of measurement methods based on actual transactions);

Level 3 – prices other than prices in active markets.

41. Trade liabilities

	31.12.2017 Audited	31.12.2016 Audited
Trade liabilities, before discounting	282 063	259 880
Discounting of liabilities	-	-
Total, net trade liabilities after discounting	**282 063**	**259 880**
including:		
- liabilities from related entities	808	831
Amounts held	15 258	25 320
Budgetary liabilities	31 203	18 071
Payroll liabilities	5 563	5 525
Other liabilities towards third parties	959	1 182
Dividends and other distributions	3	10
Total trade and other liabilities	**335 049**	**309 988**

Liabilities towards the related parties are specified in Note 57.

Trade liabilities and amounts held:

	31.12.2017 Audited	31.12.2016 Audited
Trade liabilities before discounting	297 321	285 200
With maturity within 12 months	292 280	280 559
With maturity over 12 months	5 041	4 641
Liability discounting	-	-
Total, Trade liabilities after discounting	**297 321**	**285 200**

Liabilities due within the period over 12 months are the amounts held. The maturity structure of the amounts held is presented in the table below.

	31.12.2017 Audited	31.12.2016 Audited
Up to 12 months	10 439	22 344
Over 12 months	4 818	2 976
Total	**15 258**	**25 320**

(Data in PLN thousand, unless indicated otherwise)

The Group discontinued disclosing the discounted long-term receivables due to their insignificance.

Due to a short-term nature of trade liabilities their carrying amount approximates to their fair value.

The structure of trade and other liabilities by currency is as follows:

	31.12.2017 Audited	31.12.2016 Audited
In PLN	258 286	250 014
In foreign currencies - after conversion into PLN, including:	76 763	59 974
in EUR	76 582	58 497
in SEK	181	1 475
in BYN	-	2
Total	**335 049**	**309 988**

Principles and terms of payment of liabilities:

Trade liabilities bear no interest and are usually settled in terms between 30 and 60 days. Liabilities over 12 months include amounts held that are related to the performance of construction and installation contracts in order to ensure the proper and timely completion of the contract. Other liabilities bear no interest and their average term of payment is one month. Any difference between the VAT liabilities and the VAT receivables is paid to the relevant tax authorities in the periods set forth in the tax regulations. Liabilities from interest are usually settled against the accepted interest notes.

42. Liabilities from operating leases – the Group as a lessee

As at December 31, 2017 the Group recognised as an operating lease the right of perpetual usufruct of land, which it acquired free of charge, in the amount of PLN 1 567 thousand. In the comparable period and also partially in the current reporting period the Group was also a party to operating lease agreements for machines, equipment, means of transport and other non-current assets. All the lease agreements for the aforementioned non-current assets expired in the current reporting period.

The total amounts of future minimum operating lease payments are as follows:

	31.12.2017 Audited	31.12.2016 Audited
Within 1 year	91	91
Within 1 to 5 years	363	363
Over 5 years	6 086	6 177
Total	**6 540**	**6 631**

The right of perpetual usufruct of land, which was acquired free of charge, in the amount of PLN 1 567 is also recognised as an operating lease.

Future payments for the right of perpetual usufruct of land:

	31.12.2017 Audited	31.12.2016 Audited
Within 1 year	1 011	1 012
Within 1 to 5 years	4 046	4 047
Over 5 years	55 491	56 436
Total	**60 548**	**61 495**

Liabilities resulting from the right of perpetual usufruct of land were estimated on the basis of annual payment rates provided in the last administrative decisions and the use period of land to which such a right pertains.

(Data in PLN thousand, unless indicated otherwise)

43. Finance lease liabilities

The Group uses some of its manufacturing equipment under finance lease agreements. The Group may purchase the equipment leased for its nominal value at the end of the agreements. The Group's liabilities resulting from the finance lease agreements are secured with the rights of lessors to the assets leased.

Future minimum lease payments due under such agreements and the present value of net minimum lease payments are as follows:

	31.12.2017 Audited	31.12.2016 Audited
Nominal value of minimum leasing fees		
Within 1 year	14 050	11 154
Within 1 to 5 years	28 087	32 423
Over 5 years	3 981	4 329
Total financial lease liabilities - total minimum leasing fees	**46 118**	**47 905**
Financial costs on account of financial lease	**(3 439)**	**(3 949)**
Present value of minimum leasing fees		
Within 1 year	12 628	9 640
Within 1 to 5 years	26 189	30 113
Over 5 years	3 862	4 203
Total present value of minumum leasing fees	**42 679**	**43 956**

Maturity of the finance lease agreements:

	31.12.2017 Audited	31.12.2016 Audited
Long-term	30 051	34 316
Short-term	12 628	9 640
Total	**42 679**	**43 956**

44. Accruals

	31.12.2017 Audited	31.12.2016 Audited
Received prepayments for future benefits	-	55
Future revenue clearings	416	306
Total	**416**	**361**

The structure of accruals by maturity:

	31.12.2017 Audited	31.12.2016 Audited
Long-term	-	-
Short-term	416	361
Total	**416**	**361**

45. Advances received for residential premises

These assets include any payments made by the customers towards the purchase of residential premises.

(Data in PLN thousand, unless indicated otherwise)

46. Information about financial instruments

In the period covered by the consolidated annual financial statements and in the comparable period the Group held the following financial instruments:

- financial assets and liabilities measured at fair value through profit or loss – IRS contracts,
- loans granted and own receivables – cash and short-term deposits, trade and other receivables, except for budget receivables, short-term borrowings granted to entities outside the Group, bank deposits that secure bank guarantees granted to the Group;
- financial liabilities measured at amortised cost – bank loans, bonds, leases and factoring, trade and other liabilities except for budget liabilities.

As at 31.12.2017	**Derivative instruments appointed as hedging instruments**	**Loans and receivables**	**Financial liabilities measured at amortised cost**
Disclosed in balance sheet, indicating balance sheet item			
recognised as non-current assets			
Other financial assets	-	44 147	-
Total	**-**	**44 147**	**-**
recognised as current assets			
Trade and other receivables (excluding budgetary)	-	322 152	-
Other financial assets	-	14 859	-
Cash and cash equivalents	-	112 184	-
Total	**-**	**449 195**	**-**
recognised as long-term liabilities			
Interest-bearing bank loans and borrowings	-	-	87 661
Other financial liabilities	-	-	87
Derivatives	4 351	-	-
Total	**4 351**	**-**	**87 749**
recognised as short-term liabilities			
Interest-bearing bank loans and borrowings	-	-	28 538
Trade and other liabilities (excluding budgetary)	-	-	303 846
Derivatives	960	-	-
Total	**960**	**-**	**332 384**
Total	**5 311**	**493 342**	**420 133**

(Data in PLN thousand, unless indicated otherwise)

As at 31.12.2016	Derivative instruments appointed as hedging instruments	Loans and receivables	Financial liabilities measured at amortised cost
Disclosed in balance sheet, indicating balance sheet item			
recognised as non-current assets			
Other financial assets	-	46 502	-
Total	**-**	**46 502**	**-**
recognised as current assets			
Trade and other receivables (excluding budgetary)	-	395 977	-
Other financial assets	-	8 660	-
Cash and cash equivalents	-	148 799	-
Total	**-**	**553 435**	**-**
recognised as long-term liabilities			
Interest-bearing bank loans and borrowings	-	-	100 666
Other financial liabilities	-	-	75
Derivatives	5 957	-	-
Total	**5 957**	**-**	**100 741**
recognised as short-term liabilities			
Interest-bearing bank loans and borrowings	-	-	22 003
Trade and other liabilities (excluding budgetary)	-	-	291 917
Derivatives	1 018	-	-
Total	**1 018**	**-**	**313 921**
Total	**6 976**	**599 937**	**414 663**

47. Fair value of financial instruments

Comparison of fair value and carrying amount:

	As at 31.12 2017		As at 31.12 2016	
Classes of financial instruments	**Book value**	**Fair value**	**Book value**	**Fair value**
Loans granted	213	213	-	-
Bank guarantee deposits	17 222	17 222	9 896	9 896
Financial assets related to the concession agreement	41 571	41 571	45 266	45 266
Trade and other receivables (excluding budgetary receivables)	322 152	322 152	395 977	395 977
Cash and cash equivalents	112 184	112 184	148 799	148 799
Derivatives (liability)	5 311	5 311	6 976	6 976
Loans & credits taken and financial leasing liability	116 199	116 199	122 669	122 669
Trade and other liabilities (excluding budgetary liablities)	303 846	303 846	291 917	291 917

Methods and, when a valuation technique is used, assumptions adopted to determine fair values of individual categories of financial instruments

(Data in PLN thousand, unless indicated otherwise)

Due to a short-term nature of trade and other receivables and trade and other liabilities, as well as cash and cash equivalents, the carrying amounts of these financial instruments are close to their fair value.

Any borrowings granted and any loans and borrowings incurred are based on the variable market rates linked to WIBOR, and therefore their fair values are close to their carrying amounts.

Fair value of the IRS contracts (classified as financial derivatives) is calculated as the present value of future cash flows estimated using the yield curves.

For a financial asset related to a concession arrangement which is recognised in the balance sheet at amortised cost using the effecting interest rate method, the effective interest rate of this asset is similar to the market rates as at the balance sheet date. Therefore, fair value of a financial asset related to a concession arrangement is close to its carrying amount.

The Group applies the following hierarchy when determining and disclosing fair value of the financial instruments measured at fair value, depending on the measurement method adopted:

Level 1 – quoted market prices for similar assets or liabilities in active markets;

Level 2 – prices in active markets other than the quoted market prices – set directly (by comparison with actual transactions) or indirectly (by application of measurement methods based on actual transactions);

Level 3 – prices other than prices in active markets.

Financial instrument measured in fair value	Level 1		Level 2		Level 3	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Derivatives (liability)	-	-	5 311	6 976	-	-

Both in the reporting period and in the comparable period no reallocations were made between Level 1 and Level 2, and none of the instruments was reallocated from Level 2 to Level 3.

48. Objectives and principles of financial risk management

Currency risk

The Group's activities are not significantly exposed to the fluctuations in foreign exchange rates.

Currency risk – sensitivity to changes

Foreign exchange rates do not have a significant impact on the Group's financial statements due to the fact that the items disclosed in assets and liabilities denominated in currencies other than the functional currency of each of the subsidiaries are not significant in the context of the Group's financial statement. In accordance with IFRS 7 the sensitivity analysis does not cover any translation risk.

Please find below the analysis of an impact of the PLN/EUR exchange rate on the profit or loss and on cash as at December 31, 2017 and December 31, 2016.

(Data in PLN thousand, unless indicated otherwise)

Change of PLN/EUR exchange rate in reference to average exchange rate for 2017		PLN / EUR exchange rate	Gross impact on the period result	Deffered tax	Net impact on the period result / Impact on equity
+	0,20 PLN/EUR	4,4576	532	94	626
+	0,10 PLN/EUR	4,3576	266	47	313
-	0,10 PLN/EUR	4,1576	(266)	(47)	(313)
-	0,20 PLN/EUR	4,0576	(532)	(94)	(626)

Change of PLN/EUR exchange rate in reference to average exchange rate for 2016		PLN / EUR exchange rate	Gross impact on the period result	Deffered tax	Net impact on the period result / Impact on equity
+	0,20 PLN/EUR	4,5757	2 762	(469)	2 293
+	0,10 PLN/EUR	4,4757	1 381	(235)	1 146
-	0,10 PLN/EUR	4,2757	(1 381)	235	(1 146)
-	0,20 PLN/EUR	4,1757	(2 762)	469	(2 293)

Change of PLN/EUR exchange rate in reference to average exchange rate for 2017		PLN / EUR exchange rate	Impact on cash assets
+	0,20 PLN/EUR	4,3709	3 000
+	0,10 PLN/EUR	4,2709	1 000
-	0,10 PLN/EUR	4,0709	(1 000)
-	0,20 PLN/EUR	3,9709	(3 000)

Change of PLN/EUR exchange rate in reference to average exchange rate for 2016		PLN / EUR exchange rate	Impact on cash assets
+	0,20 PLN/EUR	4,624	5 001
+	0,10 PLN/EUR	4,524	2 500
-	0,10 PLN/EUR	4,324	(2 500)
-	0,20 PLN/EUR	4,224	(5 001)

Risk related to the increasing portfolio of overdue receivables

As at the preparation hereof the Group monitors its overdue receivables. It cannot be excluded that in the future its business partners may become unable to fulfil its obligations within the time limits set, which may have a significant adverse impact on the Group’s financial condition.

Liquidity risk

Similarly to the majority of entities operating in the construction industry, the Group’s sales are also characterised by seasonality which consists in the generation of a significant part of the revenues from sales in the second half of a calendar year and in the generation of significantly lower revenues in the first quarter, which is of significant importance for the management of the Group’s liquidity and requirement for working capital. The Group's liquidity is also affected by the fact that its key customers obtain financial funds for purchases of the Group's services through the subsidies granted by the Republic of Poland and the EU. Legal regulations governing such subsidies do not allow for the funds granted to be used for paying the VAT. It cannot be excluded that the VAT receivables may be paid late by customers, which would not release the Group from the obligation to pay the VAT within the time limits set in the VAT Act.

Irregular proceeds from customers may have an adverse impact on the liquidity of the Parent Company and Group. On the other hand, the Group is paid advances between 10% and 20% for the performance of works under construction contracts, which improves its financial liquidity and enables it to finance the initial costs of construction works regardless of when they are invoiced. Any unexpected fluctuations in the liquidity and any unexpected increase in requirement for the working capital may have a significant adverse impact on the Group’s financial situation.

(Data in PLN thousand, unless indicated otherwise)

In order to mitigate the liquidity risk the Group uses external sources of financing in the form of loans (working capital loans, overdrafts and investment loans) and factoring. Liabilities from loans and borrowings as at December 31, 2017, including their maturity dates, are presented in Note 38. In addition, the Group invests any surplus of cash in interest-bearing current accounts, term deposits, money market deposits, selecting instruments with appropriate maturity or sufficient liquidity in order to ensure a sufficient level of security.

The analysis of the Group's financial liabilities in net amounts by maturity in relation to the period remaining to their contractual maturity as at the balance sheet date is provided in the table below.

As at 31.12.2017 **Audited**	**Within 90 days**	**From 90 to 360 days**	**From 1 to 5 years**	**Over 5 years**
Interest-bearing loans and borrowings	5 786	10 124	29 524	28 086
Financial lease liabilities	4 353	8 275	26 189	3 862
Derivative financial instruments	960	-	4 351	-
Trade and other liabilities (except budget liabilities)	296 093	2 710	5 041	-

As at 31.12.2016 **Audited**	**Within 1 year**	**From 1 to 5 years**	**Over 5 years**
Interest-bearing loans and borrowings	12 364	35 272	31 079
Financial lease liabilities	11 154	32 423	4 329
Derivative financial instruments	1 018	5 957	-
Trade and other liabilities (except budget liabilities)	287 277	4 641	-

Interest rate risk

As at December 31, 2017 a risk exists related to the fluctuations of interest rates which may affect the interest rates of loans and borrowings, factoring liabilities and finance lease liabilities incurred by the Trakcja Group. Due to its market position, the Group is able to acquire attractive interest rates on loans, borrowings and leases. In addition, due to the recently declining interest rates, the Group did not take any specific measures aimed at hedging itself against changes in the interest rates. Loans and borrowings incurred by the Group are described in detail in Note 38.

Based on the expectation that any potential changes in the interest rates would be insignificant, the Group decided not to present the sensitivity analysis of an effect of the interest rate fluctuations on the IRS instrument.

The analysis of an impact of the interest rate variability on the Group's performance as at December 31, 2017 and as at December 31, 2016 is presented below. For the purpose of analysing the sensitivity to the interest rate fluctuations, such fluctuations were estimated as at December 31, 2017 and as at December 31, 2016 at the level rationally expected, i.e. +1/ -1 percentage point.

(Data in PLN thousand, unless indicated otherwise)

	Value at the balance-sheet date	Sensitivity to changes as at 31.12.2017	
		+ 100 pb (PLN, EUR)	- 100 pb (PLN, EUR)
Trade receivables (present value)	334 961		
Trade payables (present value)	282 063		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	129 406	1 294	(1 294)
Assets related to the concession agreement	41 571	416	(416)
Loans and credits, factoring liability, bonds (nominal value/interest)	116 199	(1 162)	1 162
Derivatives	5 311	(53)	53
Gross impact on period result and net assets		**495**	**(495)**
Deferred tax		94	(94)
Total		**401**	**(401)**

	Value at the balance-sheet date	Sensitivity to changes as at 31.12.2016	
		+ 100 pb (PLN, EUR)	- 100 pb (PLN, EUR)
Trade receivables (present value)	375 952		
Trade payables (present value)	257 244		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	158 695	1 587	(1 587)
Assets related to the concession agreement	45 266	453	(453)
Loans and credits, factoring liability, bonds (nominal value/interest)	122 670	(1 227)	1 227
Derivatives	6 976	(70)	70
Gross impact on period result and net assets		**743**	**(743)**
Deferred tax		141	(141)
Total		**602**	**(602)**

Credit risk

The Group follows a policy of entering into transactions with customers with high creditworthiness and verified credit capacity. Credit capacity is rated on a regular basis. If the customer's credit capacity is found unsatisfactory, the Group companies apply adequate collateral in the form of funds or assets in order to mitigate the credit risk. Financial services monitor receivables on an ongoing basis in order to limit the risk of their non-collectability. The carrying amount of financial assets disclosed in the consolidated financial statements corresponds to the Group's maximum exposure to a credit risk (without collateral). As at the balance sheet date 31% of the Group’s total receivables are receivables due from PKP PLK S.A. (31.12.2016: 42%) the credit risk is significantly concentrated.

Information on overdue trade receivables and impairment losses thereon is provided in Note 30.

The Group cooperates with financial institutions with high creditworthiness. The use of credit limits is monitored on a regular basis. Free cash is located in several banks in order to avoid that the risk related to liquid funds is concentrated.

A maximum exposure to the credit risk corresponds to the carrying amount of the following financial instruments:

(Data in PLN thousand, unless indicated otherwise)

The maximum exposure to credit risk	Book value	
	31.12.2017 Audited	31.12.2016 Audited
Financial assets related to the concession agreement	41 571	45 266
Trade and other receivables, excluding budget receivables	390 832	418 173
Bank guarantees deposits	17 222	9 896
Cash and cash equivalents	112 184	148 799
Total	**561 809**	**622 133**

Objectives and principles of financial risk management

The Group manages its financial risk through the identification, monitoring and reporting of the risk factors, which is to reduce the adverse impact of the currency risk factors on the Group's cash flows and performance. The Group measures derivative instruments at fair value. For registration purposes the Group uses bank evaluations. In addition, the Lithuanian part of the Group, i.e. The companies in AB Kauno Tiltai Group, namely AB Kauno Tiltai and UAB Palangos aplinkkelis apply hedge accounting: interest rate swap (IRS) transactions in order to hedge future cash flows from interest to be paid on the term loan.

49. Balance sheet items measured at fair value

The table below presents all the balance sheet items measured at fair value and a hierarchy level assigned to them.

Items recognized in fair value	Level 1		Level 2		Level 3	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Derivatives (liability side)	-	-	5 311	6 976	-	-
Investment property	-	-	-	-	20 097	21 226
Office properties	-	-	-	-	15 438	15 213
Land properties	-	-	-	-	1 715	2 185
Deposits of natural aggregates	-	-	-	-	2 944	3 828

Assumptions adopted for determining fair values of:
- individual categories of investment instruments are described in Note 47 of the Notes.
- investment properties are described in Note 23 of the Notes.

50. Contingent receivables and liabilities

The Group has contingent receivables and liabilities relating to legal claims arising in the ordinary course of business. The table below presents the Group's contingent receivables and liabilities as at December 31, 2017 and December 31, 2016.

(Data in PLN thousand, unless indicated otherwise)

	31.12.2017 Audited	31.12.2016 Audited
Contingent receivables		
From related entities due to:	**79 285**	**70 528**
Received guarantees and sureties	76 107	65 693
Bills of exchange received as collateral	3 178	4 835
Total contingent receivables	**79 285**	**70 528**
From related entities due to:		
From other entities due to:	**2 645 100**	**2 289 406**
Provided guarantees and sureties	796 255	605 412
Promissory notes	485 219	548 593
Mortgages	149 039	152 057
Assignment of receivables	1 071 118	851 469
Assignment of rights under insurance policy	54 301	48 412
Security deposits	22 174	14 280
Other liabilities	66 994	69 183
Total contingent liabilities	**2 645 100**	**2 289 406**

Contingent liabilities due to guarantees and sureties granted for the benefit of other entities are mainly guarantees issued by banks for the benefit of business partners of the Group members as collateral for their claims against the Group arising from the construction contracts performed (performance bonds, retention bonds and advance payment guarantees). Banks have a right of recourse against the Group's companies. Promissory notes are a different form of collateral for the aforementioned bank guarantees. In the period between the balance sheet date and the publication hereof, the Parent Company concluded new agreements for tender bonds, performance bonds and advance payment guarantees in the total amount of PLN 80 454 thousand.

As at December 31, 2017, except for the aforementioned contingent receivables and liabilities, the Group had contingent receivables in the amount of PLN 1 407 thousand (as compared to PLN 1 503 thousand) arising from the employment contracts signed with employees. If a manager fails to meet his or her obligations defined in Article 1 of the Non-Competition Agreement, he or she will pay, immediately and without a termination notice or any demand issued by the Group, a contractual penalty in the amount equal to the PLN equivalent of EUR 25,000 for each failure and the amount equal to the PLN equivalent of EUR 1,000 for each day in which such a failure occurs or continues. Contingent liabilities arising from employment contracts with employees were PLN 8 600 thousand as at December 31, 2017 (31.12.2016: PLN 8 265 thousand).

Tax settlements and other fields of business subject to regulations (for example, customs or foreign currency matters) may be subject to inspections by administrative authorities entitled to impose high penalties and sanctions. The lack of reference to the well-established legal regulations in Poland and Lithuania results in the legislation in force being ambiguous and inconsistent. Frequent differences in opinions as to the legal interpretation of tax regulations, both within the state authorities themselves and between such authorities and business entities, create conflicts and uncertainty. Such events result in the tax risk in Poland being much higher than in countries with more advanced tax systems. Tax settlements may be subject to inspection during the period of five years starting from the end of the year in which a given tax was paid. As a result of the inspections carried out, any current tax settlements of the Group may be increased by additional tax liabilities. In the Group's opinion, the provisions recognised as at the end of 2017 are sufficient to mitigate the recognised and measurable tax risk.

51. Receivables from operating leases – the Group as a lessor

The Group is a party to lease agreements, in which it acts as a lessor. These agreements pertain to a lease of premises in the properties owned by the Group and to a lease of properties with deposits of natural aggregates. The lessee has no option to purchase the assets leased after the expiry of the agreement.

(Data in PLN thousand, unless indicated otherwise)

The future minimum proceeds from the operating lease in the aggregate as at December 31, 2017 and as at December 31, 2016 are as follows:

	31.12.2017 Audited	31.12.2016 Audited
Within 1 year	609	579
Within 1 to 5 years	3 200	3 050
Over 5 years	950	920
Total	**4 759**	**4 549**

52. Service concession arrangements

Public-private partnership agreement

The Company entered into service concession arrangements in the framework of a public-private partnership involving the grantor (Litewski Urząd Drogowy) and the operator (UAB Palangos aplinkkelis which is a subsidiary of the Issuer). Palangos aplinkkelis UAB (“PAK”) was established in 2013 for the purpose of implementation of the investment project consisting in the construction of a road and its further operation in the framework of a public-private arrangement. Pletros investicijos UAB (owned in 75.1% by Trakcja Group and in 24.9% by UAB Šiaulių plentas) is a sole shareholder in PAK. Both companies were established in accordance with the requirements of Litewska Administracja Drogowa and with the tender requirements. The General Contractor of the road works was AB Kauno Tiltai (Trakcja Group subsidiary). In addition to the external source of financing (bank), PAK was granted a borrowing by AB Kauno Tiltai and UAB Siauliu plentas.

The road will be maintained under a contract by AB Kauno Tiltai.

In 2017 the following amounts for the provision of construction services were recognised under a concession arrangement in exchange for a financial asset:

- sales revenues in the amount of PLN 956 thousand (2016: PLN 973 thousand).

- net profit in the amount of PLN 991 thousand (2016: PLN 1 024 thousand).

The Group recognises financial assets under a concession arrangement. The table below presents changes in the financial asset under a concession arrangement in the financial year.

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Balance at the beginning of the period	**45 266**	**44 646**
Increases	**3 455**	**3 623**
Acquisition, establishment	3 455	3 623
Decrease	**(4 584)**	**(4 691)**
Settlement of remunaration given to the operator	(4 584)	(4 691)
Exchange rate differences	**(2 567)**	**1 688**
Balance at the end of the period	**41 571**	**45 266**

53. Significant court cases and disputes

The Parent Company informs that as at December 31, 2017 the Parent Company and its subsidiaries were not parties to any pending court proceedings, arbitration proceedings or any proceedings before any public administration authority, the value of which would separately constitute an equivalent of at least 10% of the equity of Trakcja PRKiI S.A. The Parent Company also informs that the total value of the proceedings concerning its claims and liabilities constitutes at least 10% of the Parent Company's equity. As at December 31, 2017 the total value of proceedings concerning the Parent Company's claims was PLN 160 326 513.79, and the total value of proceedings concerning the Parent Company's liabilities was PLN 2 251 035.50.

The most significant proceedings concerning claims:

The case concerning claims against Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej in Warsaw (as at the commencement thereof, the case value exceeded 10% of the Company's equity)

The Parent Company merged with Przedsiębiorstwo Robót Kolejowych i Inżynieryjnych S.A. in Wrocław. As a result of this merger, the legal successor of both companies is Trakcja PRKiI S.A. in Warsaw. In connection with the announcement by the District Court of Warsaw-Praga Północ in Warsaw of the bankruptcy of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. (hereinafter referred to as the "PNI") with an option of composition, Przedsiębiorstwo Robót Komunikacyjnych i Inżynieryjnych S.A. in Wrocław provided a submission of claims of November 20, 2012 to the bankruptcy court. The submission of claims pertained to claims in the total amount of PLN 55 664 100.89, including the principal amount and the interest due up to the declaration of bankruptcy, as well as the accrued contractual penalties.

To the Parent Company's best knowledge, the list of claims towards PNI was drawn up. The claims of Trakcja PRKiI S.A. were recognised in the amount of PLN 10 569 163.16, including PLN 10 274 533.87 for the unpaid invoices and PLN 294 632.29 for the interest for delay in payment. The Company's receivables from contractual penalties and other claims in the total amount of PLN 44 956 834.35 were dismissed. The Parent Company did not agree with that dismissal; therefore, an objection was submitted to the judge commissioner concerning the dismissal in the aforementioned scope. The court had rejected the objection; therefore the Parent Company filed a complaint which was overruled. On June 8, 2015 the Parent Company received a notice from the trustee in bankruptcy on the change in the bankruptcy procedure from the arrangement bankruptcy to the liquidation bankruptcy. The case is pending and its resolution date is difficult to predict.

Submission of claims to the bankruptcy estate of Projekt-Bud Sp. z o.o. based in Warsaw

The Parent Company notifies that on March 10, 2015, by the decision of the District Court of the City of Warsaw in Warsaw, Projekt-Bud Sp. z o.o. was declared bankrupt ("Bankrupt") with an option of arrangement. The Parent Company submitted its claims against the Bankrupt in total amount of PLN 9 708 613.62. The total amount of lodged claims comprised claims under the lease of locomotives and wagons, equipment rental, sales contracts, performed works and the contractual penalty charged against the Bankrupt. On December 31, 2015 PKP PLK made a direct payment of PLN 7 382 827.30. To the Company's best knowledge, the list of claims towards Projekt-Bud Sp. z o.o. was drawn up. Liabilities of Trakcja PRKiI S.A. were recognised in the amount of PLN 18 516.

Case against Leonhard Weiss International GmbH

As Leonhard Weiss International failed to respond to the statement including a debit note and a request for payment dated October 31, 2017, of which the Group informed in the consolidated report for the 9-month period ended on September 30, 2017 in Note 25 "Interests in joint ventures", the Parent Company decided to take the case to court.
The case against Leonhard Weiss International GmbH ("LWI") for payment due under the sale agreement of 50 % of shares in Bahn Technik Wrocław Sp. z o.o. The statement of claim was submitted to the Regional Court in Warsaw on December 29, 2017, but has not yet been served on LWI. Therefore it is impossible to precisely indicate the expected closing date of the case. The Parent Company expects that an enforceable solution may be issued in the second half of 2019 or in the first half of 2020.

The value of the Parent Company's claim is PLN 20 551 495.00, including the statutory interest calculated as follows:

1) on PLN 7 500 000.00 from November 17, 2017 to the payment date,

2) on PLN 12 756 000.00 from December 8, 2017 to the payment date,

3) on PLN 295 495.00 from December 8, 2017 to the payment date.

The Parent Company requested also that the defendant reimburse the Company with the costs of the proceedings, including the costs of legal representation, in accordance with the cost records. At this stage, it is impossible to objectively at least estimate the amount of interest and costs of the proceedings which could be ordered to be paid for the benefit of the Company.

The most significant proceedings concerning liabilities:

Case filed by Geomar S.A. with its registered office in Szczecin

In September 2016 Geomar S.A. with its registered office in Szczecin filed a case against Trakcja PRKiI S.A. for payment of PLN 376 189.25, requesting that remuneration be paid to it for additional costs of services rendered in the extended term. The Parent Company lodged an objection to the order for payment under the writ of payment proceedings. The case is pending.

Other proceedings:

On October 31, 2017 the Parent Company filed a case against PKP PLK S.A. for the payment of PLN 46 747 276.90 (including, interest of PLN 4 913 969.34), requesting that compensation be paid to it in connection with extension of the completion date of the agreement entitled: "Design and completion of construction works on the railway line Kraków – Medyka – State border, at the section Podłęże – Bochnia, km 16.000 – 39.000 as part of the project "Modernisation of railway line E 30/C-E30, section Kraków – Rzeszów, phase III" that a part of the lump-sum fee due to the Parent Company and unpaid by PKP PLK S.A. be paid to it for the groundless submission of the partial withdrawal from the agreement. On December 12, 2017 the Parent Company expanded the claim whose current value is PLN 50 517 012.38 (including, interest of PLN 5 336 177.01). The extension pertained to the Parent Company's claims against PKP PLK S.A. in relation to the groundless enforcement of the contractual penalties accrued and the part of remuneration for the performance of the contract and agreements for additional works, which PKP PLK S.A. unreasonably refuses to pay. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On October 31, 2017 the Company along with Przedsiębiorstwo Budowlane "FILAR" Spółka z ograniczoną odpowiedzialnością based in Wrocław, and Berger Bau Polska Spółka z ograniczoną odpowiedzialnością based in Wrocław, has filed a case against PKP PLK S.A. for reimbursement of additional costs related with the extension of the completion date of the Contract No. 90/116/0006/11/Z/I for basic linear construction works at the section Wrocław – Grabiszyn – Skokowa and Żmigród – border of the Dolnośląskie Province within the scope of the project entitled "Modernisation of railway line E 59 at the section Wrocław – Poznań, Stage II – section Wrocław – border of the Dolnośląskie Province". The Parent Company's portion of the claim is PLN 11 640 113.77 (including, interest of PLN 1 415 797.02). The case is at the early stage of proceedings and its resolution date is difficult to predict.

On October 31, 2017 the Parent Company filed a case in the payment order proceedings against PKP PLK S.A. for the payment of PLN 12 221 007.10 (including, interest of PLN 1 821 726.10), requesting that unjust enrichment in the form of unpaid remuneration be refunded for the completion:

a) of additional works in connection with Contract No. 90/132/121/00/17000031/10/I/I dated December 16, 2010 for the "Design and implementation of the construction works at the railway line Kraków – Medyka – national border, at the section Dębica – Sędziszów Małopolski (111.500 km – 133.600 km) under the project POIiŚ 7.1-30 "Modernisation of railway line E30/C-E 30, section Kraków – Rzeszów, phase III" Tender proceedings 2.2" in the total amount of PLN 7 570 281.00.

b) of additional works in connection with Contract No. 90/132/336/00/17000031/10/I/I dated November 29, 2010 for the "Design and implementation of the construction works at the railway line Kraków – Medyka – national border, at the section Sędziszów Małopolski – Rzeszów Zachodni under the project POIiŚ 7.1-30 "Modernisation of railway line E3/C-E 30, section Kraków – Rzeszów, phase III" Tender proceedings 2.3" in the total amount of PLN 2 829 000.00.

The case is at the early stage of proceedings and its resolution date is difficult to predict.

In addition to the proceedings specified above, which are reflected in the amounts stated at the beginning of the note, there are also other disputes pending within the Group:

PRK 7 Nieruchomości Sp. z o.o.

A case filed by Osiedle Lazurowe Commonhold against the company for the payment of PLN 700 466.50 together with interest from the date of filing the suit to the date of payment, is pending before the Regional Court in Warsaw. The Company challenges the claims included in the lawsuit, therefore the Company submitted a response to the lawsuit. In 2015 a provision was created for that purpose, which as at December 31, 2017 was PLN 570 thousand. The case is pending and its resolution date is difficult to predict.

AB Kauno Tiltai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, of which a subsidiary, AB Kauno Tiltai, is a member, for a total amount of PLN 64 591 497.18 (EUR 14 989 556.33). The share of Trakcja Group in the liabilities (if any) that may arise from these proceedings is 65%. In the course of the long-lasting process the court appointed an independent expert, who confirmed the opinion of the company that the aforementioned claim was unjustified. Therefore, the company's management believes that there is a substantial likelihood that the potential penalty will be significantly reduced. This allowed AB Kauno tiltai to reverse the provision of EUR 7 752 thousand which was created in 2015 for the contractual penalty accrued. The Group refrained from making any other disclosures related to this court case by invoking clause 92 of IAS 37.

54. Dividends paid and declared

In 2017 Trakcja PRKiI S.A. paid dividends.

On June 27, 2017 the Company's Annual General Meeting adopted a resolution, according to which the Company's profit for 2016 in the amount of PLN 28 698 634.86 would be allocated as follows:

- the amount of PLN 25 699 774.00 (i.e. PLN 0.50 per share) to pay dividends,

- the amount of PLN 2 998 860.86 to increase the supplementary capital.

The number of shares entitled to dividend was 51 399 548.

The Ordinary General Meeting decided that the dividend date would be July 5, 2017 and that dividends would be paid on July 19, 2017.

(Data in PLN thousand, unless indicated otherwise)

55. Assets used as collateral

Assets used as collateral:

	31.12.2017 Audited	31.12.2016 Audited
Tangible non-current assets	75 044	78 604
Investment property	1 211	-
Inventory	14 668	10 344
Deposits	17 222	14 665
Receivables	92 289	94 023
Cash	55 341	108 929
Total	**255 774**	**306 564**

Assets pledged:

- 50% of shares in BTW (the value of the collateral established is PLN 11 754 thousand);

- shares in UAB Kelda which is a member of AB Kauno Tiltai Group (the value of the collateral established is EUR 377 thousand);

- shares in UAB Palangos aplinkkelis which is a member of AB Kauno Tiltai Group (the value of the collateral established is EUR 1 203 thousand).

56. Information on income, expenses and profit or loss on the operations discontinued

As at December 31, 2017 and December 31, 2016 there were no discontinued operations recognised in the Group.

57. Information on related entities

In 2017, the Group companies did not make any significant transactions with their related entities on terms other than at arm's length. Transactions made by the Parent Company and its subsidiaries (related entities) are the arm’s length transactions and their nature is a result of the current operations conducted by the Parent Company and its subsidiaries.

Transactions between the Company and its subsidiaries being the Company's related entities are eliminated at the consolidation and are not included in this Note. Information about transactions between the Group and other related entities are detailed below.

(Data in PLN thousand, unless indicated otherwise)

Total amounts of transactions made with related entities in the financial year concerned:

Related entities	Financial year	Sale to related entities	Purchases from related entities	Interest revenue	Interest costs	Financial revenue from FX differences and other	Financial costs from FX differences and other
Shareholders of parent company:							
COMSA S.A.	1.01.17-31.12.17	52 399	1 381	-	-	-	-
	1.01.16-31.12.16	12 820	1 801	-	-	-	-
Joint venture:							
Bahn Technik Wrocław Sp. z o.o.	1.01.16-30.12.16	1 022	5 107	-	-	-	-
Total	**1.01.17-31.12.17**	**52 399**	**1 381**	**-**	**-**	**-**	**-**
	1.01.16-31.12.16	**13 842**	**6 908**	**-**	**-**	**-**	**-**

In the financial year ended on December 31, 2016 the Group exercised joint control over BTW and classified the company as a joint venture in accordance with IFRS 11 and consolidated the BTW's data under the equity method. The Group acquired full control over BTW as at December 30, 2016 and as at that date all the balances between the Group companies and BTW were eliminated in accordance with the full consolidation method. In 2017 BTW was fully consolidated.

Information on receivables from and liabilities towards related entities as at the end of the financial year concerned:

Related entities	Reporting date	Receivables from related entities	Liabilities towards related entities	Loans granted	Borrowings received
Shareholders of parent company:					
COMSA S.A.	31.12.2017	2 780	808	-	-
	31.12.2016	5 798	831	-	-
Total	**31.12.2017**	**2 780**	**808**	**-**	**-**
	31.12.2016	**5 798**	**831**	**-**	**-**

The Parent Company and its shareholder, COMSA S.A., have signed an agreement for granting to the Parent Company a licence for the entire technical know-how and trademark, as well as for providing non-material goods in the form of competences, industry knowledge and expert knowledge in terms of organisation, operations, sales and technology of COMSA S.A. The agreement is concluded at arm's length. Remuneration for the provision of the aforementioned services by COMSA S.A. was PLN 1 381 thousand in 2017.

The amounts unpaid are not secured and will be settled in cash. No guaranties were granted to or by the Company. No costs of receivables that are doubtful and at risk, which are due in transactions with the related entities were recognised in the reporting period.

58. Information on benefits for key personnel

The Management Board of the Parent Company is the key management personnel of the Group.

Remuneration for the Parent Company's Management Board is presented below.

(Data in PLN thousand, unless indicated otherwise)

Remuneration of the Management Board of the Parent company	Financial year ended 31.12.2017 Audited		31.12.2016 Audited	
	In Parent company	In subsidiaries	In Parent company	In subsidiaries
Salaries and other current employee benefits	3 151	1 097	3 942	1 802
Post-employment benefits	-	-	-	92
Other long-term benefits	-	-	-	-
Benefits due to termination of employment	-	-	-	-
Share-based payment	-	-	-	-
Total	**3 151**	**1 097**	**3 942**	**1 894**

Information on the agreements concluded with the managing persons are detailed in pt. 5.10, and additional information on remuneration of the Management Board and Supervisory Board members are provided in pt. 5.9 of the Report of the Management Board on the activities of Trakcja Group for the financial year ended December 31, 2017.

On November 17, 2017 the Parent Company was notified of the joint acquisition of 132 400 shares in the Company by Jarosław Tomaszewski (President of the Management Board of the Parent Company) and Maria Joanna Tomaszewska as a person closely related to Jarosław Tomaszewski (wife). The Parent Company notified thereof in Current Report No. 18/2017.

The Management Board members of Trakcja PRKiI are not shareholders or controlling shareholders, or jointly controlling shareholders, or shareholder exerting a significant impact on the entities other than members of Trakcja Group.

In 2017 and 2016 the Parent Company and the Group's management did not enter into any significant transactions. In 2017 no borrowings were made to the Management Board members or Supervisory Board members of Trakcja PRKiI.

Remuneration of the Parent Company's Supervisory Board:

Remuneration of the Supervisory Board of the Parent company	31.12.2017 Audited		31.12.2016 Audited	
	In Parent company	In subsidiaries	In Parent company	In subsidiaries
Salaries and other current employee benefits	969	250	578	262
Total	**969**	**250**	**578**	**262**

59. Significant events in the financial year and after the balance sheet date

Significant events in the financial year are described in detail in Note 2.4 to the Report on the activities of the Group in 2017. In the period between the balance sheet date and the preparation hereof, i.e. until March 28, 2018 no events occurred that were not, and should have been included in the accounting records of the financial year.

(Data in PLN thousand, unless indicated otherwise)

Events after the balance sheet date

Important events after the balance sheet date

Significant construction contracts	**CR**
The Management Board of Trakcja PRKiI S.A. ("Company", "Issuer") informs that the Company, acting as the Leader of the Consortium with AB Kauno Tiltai - as the Consortium Partner - has today signed a contract with the Municipal Office of the City of Gorzów Wielkopolski and with Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o. based in Gorzów, covering the execution of construction works envisaged within the project of the development of a "System of Sustainable Municipal Transport in Gorzów Wielkopolski", related to the municipal transport system, including: the renovation of tramway tracks, construction of tramway platforms and roads - in accordance with the contractual scope.	2/2018

Changes in the Management Board	**CR**
The Management Board of Trakcja PRKiI S.A. (“Company”, “Issuer”) hereby informs that today the Company received from Mr Jarosław Tomaszewski a statement of resignation from the function of the President of the Management Board of the Company and the Member of the Management Board of the Company with the effect for the day June 30th, 2018.	3/2018

Other	**CR**
The Management Board of Trakcja PRKiI S.A. (the Company) hereby makes public the dates of publication of periodic reports in 2018.	1/2018

60. Financial statements in high inflation periods

The accumulated average annual inflation rate for the last three years for each of the periods covered by these consolidated financial statements did not exceed 100%, and therefore the financial statements did not have to be restated using the consumer price index.

61. Employment

Average employment in the Group was as follows:

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Average employment in the Capital Group during the period:		
Management Board of Parent entity	5	5
Management Boards of subsidiaries	15	13
Administration	229	225
Sales department	34	35
Production division	1 360	1 383
Machine operators	252	240
Technical staff	142	142
Other employees	43	48
Total	**2 080**	**2 091**

(Data in PLN thousand, unless indicated otherwise)

Employment in the Group as at December 31, 2017 was as follows:

	31.12.2017 Audited	31.12.2016 Audited
Employment in the Capital Group at the balance sheet date		
Management Board of Parent entity	5	3
Management Boards of subsidiaries	15	13
Administration	227	228
Sales department	35	36
Production division	1 258	1 260
Machine operators	255	238
Technical staff	143	141
Other employees	46	43
Total	**1 984**	**1 962**

62. Assets and liabilities of the company social benefits fund (ZFŚS)

In accordance with the Act on the Company Social Benefits Fund of March 4, 1994, as amended, the company social benefits fund is established by employers that employ more than 20 employees in the equivalent of full-time job positions. The Group established the fund and has been making regular contributions to this fund in the basic amount. The objective of the fund is to subsidise the Group's social activities, loans granted to its employees and other social costs. The Group set off the fund's assets with its liabilities towards the fund, because such assets are not separate assets of the Group.

The table below present the analysis of assets, liabilities, costs and net balance of the offset assets and liabilities of the fund:

	31.12.2017 Audited	31.12.2016 Audited
Loans granted to employees	533	676
Cash	1 464	928
Prepayments	(25)	(21)
Liabilities attributable to the Fund	(1 192)	(1 331)
Balance after compensation	**780**	**251**
Contributions to the fund during the financial period	**1 497**	**1 364**

63. Information on the entity acting as the statutory auditor

Pursuant to a resolution adopted by the Supervisory Board of Trakcja PRKiI, the entity authorised to audit financial statements of the Group and the Parent Company is Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (acting under the business name of Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. K. until March 18, 2018) with its registered office in Warsaw at Al. Jana Pawła II 22.

On July 31, 2017 the Parent Company and Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (acting under the business name of Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. K. until March 18, 2018) entered into an agreement for:

- the examination of the separate and consolidated half-yearly financial statements as at June 30, 2017 in accordance with the International Accounting Standards,
- the audit of the separate and consolidated annual financial statements as at December 31, 2017 in accordance with the International Accounting Standards.

The agreement is concluded for the period of completion of its subject.

Remuneration for the audit of selected companies within Trakcja Group is paid under separate agreements concluded between the entity authorised to audit financial statements and each of the selected Group members.

(Data in PLN thousand, unless indicated otherwise)

Remuneration of the statutory auditor for the services rendered for the Group is presented in the table below.

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
On account of agreement for financial statement audit	236	194
On account of agreement for financial statement review	76	72
On account of other agreements	41	5
Total	**353**	**271**

The chief statutory auditor and the audit firm stated that in 2017 they rendered for the entities within the Group the following services other than those of auditing financial statements:

- assurance services for the Company's Integrated Annual Report for 2016, which involved the assessment of the quality and integrity of the data collected and of its compliance with the International Reporting Guidelines and the Global Reporting Initiative.

- review of the Respect Index questionnaire.

Warsaw, March 28, 2018

Jarosław Tomaszewski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Person responsible for drawing up the report:

Sławomir Krysiński

Director of Financial Reporting in Trakcja Group

TRAKCJA CAPITAL GROUP

WARSAW, ZŁOTA 59

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR 2017

WITH

AUDITOR'S REPORT

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AUDITOR'S REPORT

To the General Shareholders' Meeting and Supervisory Board of Trakcja PRKiI S.A.

Auditor's report

We have audited the attached annual consolidated financial statements of the Trakcja Capital Group (hereinafter: "Capital Group"), for which Trakcja PRKiI S.A. (hereinafter: "Parent Company") is the Parent Company, comprising: a consolidated balance sheet prepared as at 31 December 2017, consolidated profit and loss account and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows prepared for the financial year from 1 January 2017 to 31 December 2017 and notes comprising a summary of significant accounting policies and other explanatory information (hereinafter: "consolidated financial statements").

Responsibility of the Parent Company's manager and those charged with governance for the consolidated financial statements

The Management Board of the Parent Company is obliged to prepare the consolidated financial statements and to present them fairly in line with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and other applicable laws as well as the entity's articles of association. The Management Board of the Parent Company is also responsible for ensuring internal control necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act, the Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2018, item 395, as amended), hereinafter referred to as the "Accounting Act".

Auditor's responsibility

Our responsibility was to express an opinion whether the consolidated financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital Group in line with the applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies).

Our audit of the consolidated financial statements has been performed in accordance with:

1) the Act on statutory auditors, auditing companies and public oversight of 11 May 2017 (Journal of Laws of 2017, item 1089, as amended) ("*Act on statutory auditors*");

2) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU L 158, 27 May 2014, p. 77 and OJ EU L 170, 11 June 2014, p. 66) ("*Regulation 537/2014*").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The objective of the audit is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the consolidated financial statements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management Board of the Parent Company, as well as evaluating the overall presentation of the consolidated financial statements.

The scope of the audit does not include an assurance regarding the future profitability of the audited Capital Group or the effectiveness of the Parent Company's Management Board in managing the Capital Group's affairs at present and in future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The audit opinion is consistent with the additional report to the Audit Committee issued as at 15th March 2018.

Independence

During the audit the key certified auditor and the audit firm remained independent of the audited members of the Capital Group in accordance with the provisions of the Act on statutory auditors, Regulation 537/2014 and the ethical requirements set out in resolution of the National Council of Statutory Auditors.

We certify that, to the best of our knowledge and belief, we have not provided non-audit services, which are prohibited under Article 136 of the Act on statutory auditors and Article 5.1 of Regulation 537/2014, to the entities that belong to the Capital Group.

Choice of audit firm

We were appointed to audit the consolidated financial statements of the Capital Group by resolution No. 13 of Supervisory Board adopted on 23rd May 2017. We have been auditing the consolidated financial statements of the Capital Group for an uninterrupted period beginning with the financial year ended 31 December 2014, i.e. for four consecutive financial years.

Most significant risks

During the audit we identified the following, most significant risks of material misstatement, also resulting from fraud, and we designed audit procedures responsive to those risks.

<table>
<tr><th>Description of the risks of material misstatement</th><th>Procedures carried out by the auditor in response to identified risks</th></tr>
<tr><td colspan="2">Goodwill impairment analysis</td></tr>
<tr><td>The Parent holds significant investments in subsidiary companies that operate in the construction market in Poland and in Lithuania. As a result of their acquisition in previous years the goodwill recognized in the consolidated financial statements as at 31 December 2017 equalled PLN 327 996 thousand (Note 24).

Bearing in mind the materiality of the item in the financial statements of the Company and the complexity of the issue and sensitivity of the results of the impairment test to the assumptions, we have analysed the impairment test in detail.

The key audit risk for us was the risk of judgement and estimates primarily related to cash flow projections, calculation of the discount rate and assessment of residual values in the discounted cash flow model which constituted the grounds for recognition of the impairment loss.

Following the test, the Management Board did not recognise an impairment loss of assets in the financial statements of the Group concerning the financial year ended 31 December 2017.

In Note 24 of the financial statements the Group has presented information about the impairment testing, including the results of the tests, sensitivity analysis and description of the assumptions made.</td><td>In particular, our audit procedures involved:

• understanding and assessment of the procedure of identification of indications of the impairment of goodwill and the correctness of the test method applied in line with the relevant standards of financial reporting;
• a critical assessment of the assumptions and estimates made by the Management Board of the Parent concerning the calculation of the recoverable amount, including:
– a comparison of the assumptions about future cash flows with budgets and the medium-term plans and assessment of the validity of the plans;
– an assessment of the assumptions and estimates made to determine the recoverable amount of goodwill, including the assessment of the grounds of establishing a cash-generating unit and the method of impairment losses in accordance with the requirements of IAS 36;
– an analysis of the validity of key macroeconomic assumptions;
– an assessment of the method of calculation of the residual values beyond the period covered by the medium-term plans and of compliance of such methods with the International Financial Reporting Standards;
– an analysis of the method of calculation of discount rates;
– an analysis of the Parent’s Management Board’s analysis of the sensitivity of the key assumptions to the results of the measurement;
– an assessment of the correctness and completeness of disclosures in the Group's financial statements.</td></tr>
</table>

Correctness of accounting for construction contracts

In 2017 the Group generated revenue from performance of construction contracts in the amount of PLN 1 288 103 thousand (Note 13) which resulted in recognition of assets on account of the surplus of determined revenue over invoiced revenue of PLN 108 819 thousand (Note 32) in the financial statements as at 31 December 2017.

The Group recognizes revenue arising from contract performance using the percentage of completion method in line with IAS 11 - Construction contracts. According to these standards, the value of the reported revenue recognized within the given year depends to a large extent on the actual costs incurred, determination of the appropriate margin and assessment of the progress of contracts as well as the accuracy and completeness of budgets for construction contracts.

In our opinion the key judgements concern the accuracy and completeness of budgets for construction contracts as well as their impact on the recognition of the revenue in view of the requirements laid down by the International Accounting Standard 11 - Construction contracts. The risk linked with correct identification of all risks within the contract budget still remains the key factor in the Group's operations and it significantly affects the correctness of accounting for construction contracts. Furthermore, the correctness of accounting for construction contracts is to a large extent dependant on the measurement of changes in specifications and changes in the scopes of work. Considering the scale of the implemented projects, their complexity, uncertainty regarding the costs of their completion, the outcomes of conversations with contracting entities, changes in specifications and changes in the scope of work, they require making significant judgements.

Our audit procedures aimed to assess the correctness of accounting for construction contracts involved:

- obtaining understanding and assessment of the design and implementation of the key controls that are in place in connection with accounting for construction contracts;
- analysis of the correctness of the settlement model for construction contracts, including:
  - verification of the arithmetical accuracy of contract settlements and recognition of the measurement in the accounting records;
  - analysis of the portfolio of contracts to identify material and risk-exposed contracts that were included in the sample selected for further detailed procedures;
  - with respect to selected contracts - discussion of the contract delivery status with Contract Directors and, if required, with the Management Board;
  - with respect to selected contracts - analysis of changes in budgets during the audited year together with reconciliation of changes in projected revenues and costs in the budget to source documents;
  - visits to selected construction sites to confirm the stage of completion of the contracts;
  - obtaining understanding of the accounting methods used for settlements on contracts implemented in consortia;
  - sensitivity analysis of contract budgets for the increase in the price of materials, services of subcontractors and wages projected for the market;
  - analysis of budgets in terms of completeness of cost recognition;
  - analysis of lawyers' letters regarding the inclusion of potential claims.

Opinion

In our opinion, the attached annual consolidated financial statements:

- give a true and fair view of the economic and financial position of the Capital Group as at 31 December 2017 and its financial performance during the financial year from 1 January to 31 December 2017, in accordance with the applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies);

- comply, with respect to their form and content, with the applicable provisions of law, including the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) and the articles of association of the Parent Company.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities of the Capital Group.

It is the responsibility of the Management Board of the Parent Company to prepare the report on the activities of the Capital Group in accordance with the Accounting Act and other applicable laws. The Management Board of the Parent Company and members of the Supervisory Board are also obliged to ensure that the report on the activities of the Capital Group meets the requirements of the Accounting Act.

Under the act on statutory auditors we were obliged to issue an opinion as to whether the report on the activities of the Capital Group complies with the provisions of law and is consistent with underlying information disclosed in the attached consolidated financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities of the Capital Group based on our knowledge of the Capital Group and its business environment obtained in the course of the audit and to explain the nature of each such material misstatement.

In our opinion, the report on the activities of the Capital Group has been prepared in line with the applicable provisions of law and is consistent with the underlying information disclosed in the attached consolidated financial statements. Furthermore, based on our knowledge of the Capital Group and its business environment obtained in the course of the audit we believe that the report on the activities of the Capital Group is free from material misstatement.

Opinion on the statement of compliance with corporate governance principles

The Management Board of the Parent Company is responsible for the preparation of the statement of compliance with corporate governance principles in line with the provisions of law. The Management Board of the Parent Company and members of the Supervisory Board are obliged to ensure that the statement of compliance with corporate governance principles meet the requirements of the provisions of law.

As the auditors of the financial statements we were obliged — under the act on statutory auditors — to issue an opinion as to whether the issuer, required to submit a statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities, included in such statement the legally required information and — with respect to specific information so required or required by other rules — a declaration whether it complies with applicable regulations and is consistent with the information included in the annual consolidated financial statements.

In our opinion, the statement of compliance with corporate governance principles includes information specified in Article 91.5.4 letters a, b, g, j, k and l of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) ("*Ordinance*"). The information specified in Article 91.5.4 letters c-f, h and i of the Ordinance given in the statement of compliance with corporate governance principles is consistent with the applicable provisions of law and the information presented in the annual consolidated financial statements.

Information about the non-financial statement

In accordance with the requirements set out in the Act on statutory auditors, we would like to inform you that the Parent Company has prepared a non-financial statement referred to in Article 49b.1 of the Accounting Act which constitutes a separate part of the report on the activities of the Capital Group.

We have not performed any assurance works as regards the non-financial statement and we do not express any assurance regarding that statement.

Conducting the audit on behalf of Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (until 18 march 2018 operating under the name Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k.) — entity entered under number 73 on the list of audit firms kept by the National Council of Statutory Auditors:

Maciej Krasoń
Key certified auditor
No. 10149

Warsaw, 28 March 2018

This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.