TRAKCJA PRKiI S.A.

ANNUAL REPORT

OF TRAKCJA PRKiI

FOR THE FINANCIAL YEAR ENDED December 31, 2017

published pursuant to pt. 82.1.3 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:

I. Letter from the President of the Management Board to Shareholders
II. Report of the Management Board on the Activities of Trakcja PRKiI S.A. in 2017
III. Management Board's Statement
IV. Non-financial Statement for 2017
V. Annual Financial Statements of Trakcja PRKiI S.A. for the financial year ended December 31, 2017
VI. Report of the Statutory Auditor

Dear Stakeholders,

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.

On behalf of the Company's Management Board
Jarosław Tomaszewski

President of the Management Board

General Director

Trakcja PRKiI S.A.

TRAKCJA PRKiI S.A.

REPORT OF THE MANAGEMENT BOARD

ON THE ACTIVITIES OF TRAKCJA PRKiI S.A.

IN 2017

This document is a translation

The Polish original should be referred to in matters of interpretation

This Report of the Management Board on the Activities of Trakcja PRKiI S.A. in 2017 was prepared pursuant to Article 91 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 of the Management Board on the Activities of Trakcja PRKiI S.A. are presented in thousands of Polish zlotys, unless explicitly stated otherwise. Financial information included herein is derived from the 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 draw your attention to the forward-looking statements (e.g. may, will, expect, consider, estimate), because they are based on certain assumptions subject to risk and uncertainty. Therefore, the Company bears no liability for such information.

1. KEY INFORMATION ABOUT TRAKCJA PRKiI S.A.

1.1 Information about Trakcja PRKiI S.A.

Trakcja PRKiI S.A. (hereinafter referred to as the "Company", "Issuer" or "Trakcja PRKiI") is one the leading entities on the Polish rail and tram infrastructure construction market.

The Company's activities concentrate on the comprehensive performance of works relating to a widely understood rail infrastructure with the use of modern machinery. The Company 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 PRKiI 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 services provided also include the development of power systems and remote control systems. For over seventy years, the Company has been implementing complete power installations of medium and lately high voltage, both in new and in modernised and renovated rail power facilities.

Trakcja PRKiI 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.

The Company has been granted a liquid fluid marketing concession, rail transport licence for an indefinite period and a licence for making available traction units granted for an indefinite period.

The Company's main attributes include its ability to provide for the comprehensive performance of projects within its own capacity in all industries (rail 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 Company has a significant competitive advantage over other companies, and its position on the market of services relating to the rail infrastructure is grounded and stable.

The long-term market practice allowed the Company to develop methods for managing projects, which provided it with ability to complete the projects implemented within the agreed schedules and simultaneously to maintain the required quality and to meet special requirements of the investors.

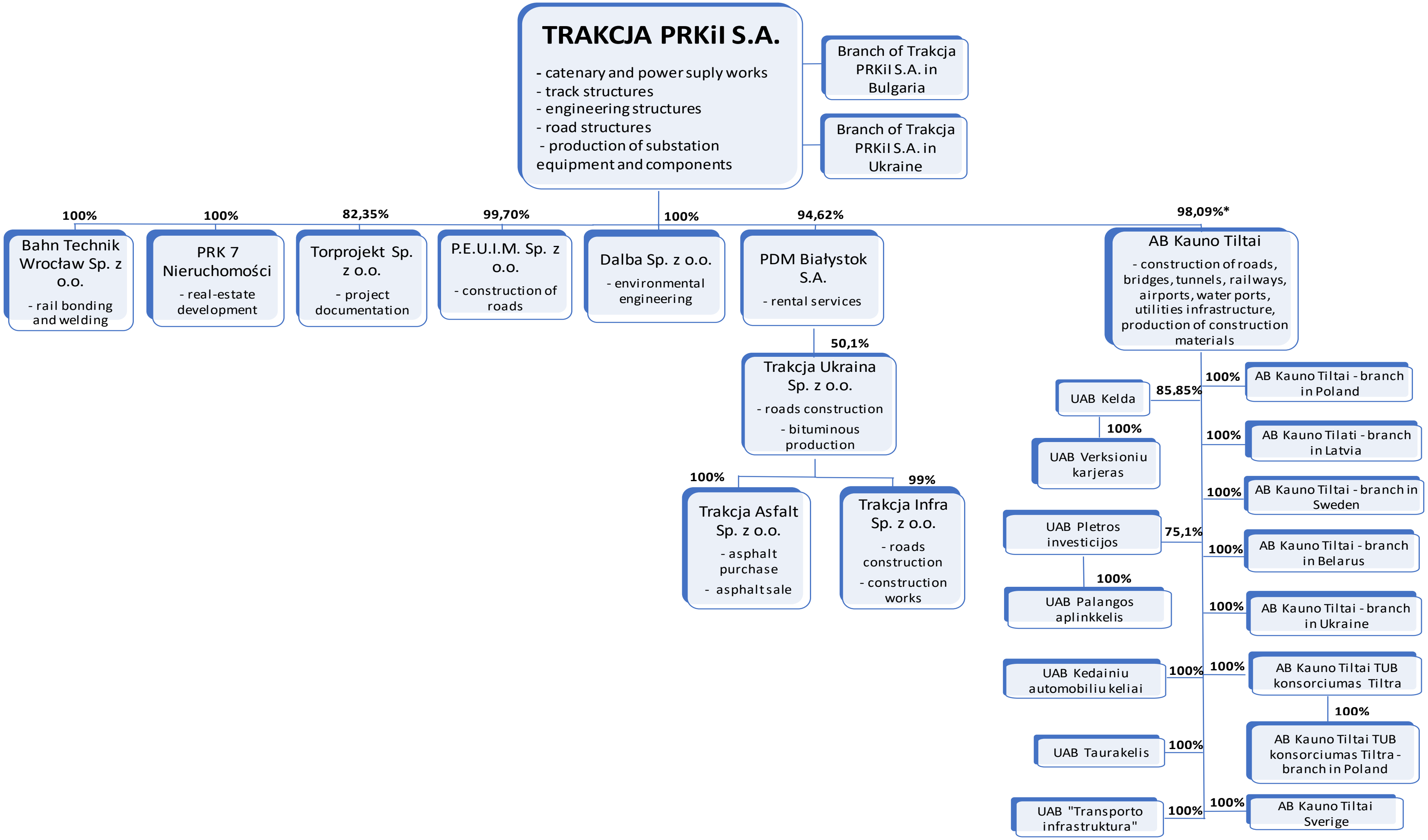
The majority of the projects implemented by the Company are financed, in particular, with funds granted by European Union and the government of the Republic of Poland. Their implementation requires the EU procedures to be strictly complied with, which also has an effect on the quality of the services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

The Company has experience in constructing and repairing roads in Poland. The Company performs comprehensive works as a general contractor together with reliable subcontractors or independently within its own capacity. Furthermore, it 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.

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

1.2 Information about organisational and capital relations of the Company with other entities

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



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

Changes in the structure of Trakcja 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 with a business name of Trakcja Ukraina Sp. z o.o. and with its registered office in Dnipro, 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. Due to an insignificant impact of the Ukrainian companies on the Group's performance, their data is not included herein. AB Kauno Tiltai opened an establishment with its registered office in Kiev (Ukraine) on June 22, 2017.

1.3 Employment Structure

Average employment in the Company in the reporting period:

Average employment in the Company during the reporting period:	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Management Board of Parent entity	3	5
Administration	127	126
Sales department	7	6
Production division	856	848
Other employees	0	1
Total	**993**	**986**

Employment as at:

Employment in the Company	31.12.2017 Audited	31.12.2016 Audited
Management Board of Parent entity	5	3
Administration	136	130
Sales department	6	6
Production division	923	798
Total	**1 070**	**937**

1.4 Changes in the key principles for managing the Company

The 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.

The system documentation was amended and more emphasis was put on inspecting and supervising the construction works performed.

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

In 2017 the Company was for the second time in a row included recognised as one of the sociably responsible companies listed on the Warsaw Stock Exchange (RESPECT INDEX). In the course of 2017 the 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 Company endeavours to contribute to sustainable development from an economic, social and environmental perspective.

In 2017 the Company 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 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 the first 6 months of 2017, Trakcja PRKiI 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 Company adopted 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 thereto, 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 Company will seek to improve its performance.

In 2017 the 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 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 Company introduced a new contract management structure through the implementation, in particular, of a new contract budgeting system and of an analysis by segment and by region. Given its rigorous approach to the management of contracts, the Company holds meetings with directors of individual contracts on a monthly basis. In addition, the 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 Company's Management Board changed as has been further described in pt. 6.3.

2. ACTIVITIES OF THE COMPANY

2.1 Key products, goods and services

Trakcja PRKiI modernises rail lines, and therefore performs the following works:

- 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.

The Company also operates on the road market. These activities cover:

- 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.

In addition, the Company constructs the accompanying elements of the rail and road infrastructure.

Moreover, the Company 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 Company 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.

In 2017 in order to diversify its activities the Company started operating on the tram infrastructure market.

As at December 31, 2017 the contract portfolio of Trakcja PRKil was PLN 1 499 million (excluding revenues allocated to consortium members). In the course of 2017 the Company signed construction contracts with the total value of PLN 1 556 million (excluding works allocated to consortium members). The contract portfolio as at December 31, 2017 ensures that the Company will use at 100% its capacity in the following financial year. Participation in new tenders in 2018 will enable the Company to secure, to an even greater extent, its portfolio of contracts for future periods.

The largest contracts performed by the Company in the course of 2017 are presented in the table below.

Name of the contract	**Country of contract completion**	**% share of the company in the consortium**	
		31.12.2017	**31.12.2016**
Modernization of the E 65 / CE 65 railway line on the Warsaw - Gdynia section - LCS Iława area, LCS Malbork	Poland	69,4%	69,0%
Modernization of the E 65 / C-E 65 railway line on the Warsaw - Gdynia section - LCS Działdowo area	Poland	70,5%	70,5%
Modernization of the E 30 / C-E30 railway line, Kraków - Rzeszów section, stage III (Podłęże - Bochnia)	Poland	96,9%	96,9%
Revitalization of railway line no. 144 on the section Fosowskie - Opole	Poland	67,1%	67,1%
Modernization of the E59 railway line on the Wrocław – Poznań section, stage II - section: Wrocław - Dolnośląskie voivodeship	Poland	40,4%	40,4%
Modernization of the E 30 / C-E 30 railway line, Kraków - Rzeszów section, stage III (Dębica - Sędziszów Małopolski)	Poland	86,2%	86,2%
Modernization of the E30 railway line, stage II episode Zabrze - Katowice - Kraków Tender no. 1 - Modernization of sections: Jaworzno Szczakowa - Trzebinia (km 15,810 -9,19,110 of line no. 133) Jaworzno Szczakowa - Sosnowiec Jęzor (km 0.000 - 6.847 lines 134)	Poland	78,3%	78,3%
Modernization of railway line no. 358 on the section Zbąszynek - Czerwieńsk with the construction of the railway link Pomorsko - Przylep, avoiding the stations Czerwieńsk	Poland	93,7%	93,7%
Connection of Korczowa Logistic Park - stage I (construction of the kV line Przemyśl Radymno)	Poland	77,8%	77,8%
Modernization of line no. 20 within the PKP Warszawa Gdańska railway station in conjunction with the E 65 line and the A 17 Dworzec Gdański stage II "subway station as part of the project" Works on the perimeter line in Warsaw (section Warsaw Gołąbki / Warszawa Zachodnia - Warsaw Gdańska)	Poland	59,8%	59,5%
Construction of engineering facilities of the E59 railway line: part A facility at km 145.65	Poland	36,6%	21,5%
Construction of engineering facilities of the E59 railway line: part C of the facility at km 160,857	Poland	11,9%	8,9%
Implementation of construction works under the tender no. 1 - modernization of the Jaworzno Szczakowa-Trzebinia section (km 1,150 - 0,000 of line No. 134, km 15,810 - 29,110 of line no. 133)	Poland	57,7%	57,3%
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"	Poland	47,5%	brak
Designing and execution of works for the task titled Reconstruction of the traction network on the Idzikowice - Opoczno Południe route of the railway line no. 4 of the CMK as part of the project entitled "Modernization of the railway line no. 4 - Centralna Magistrala Kolejowa etap II" - Part 1	Poland	50,8%	brak
Works for the modernization of Maków Mazowiecki 110/15 kV station	Poland	33,5%	brak
Design and reconstruction of the 110kV line between GPZ Radzyń-GPZ Łuków	Poland	91,6%	brak
Construction and extension of the provincial road no. 676 along with road engineering facilities and the necessary technical infrastructure along the Białystok - Supraśl section with the bypass of the town of Ogrodniczki and Krasne	Poland	18,4%	brak

2.2 Sales structure

The Company's sales structure by type of works, as well as production and other activities are presented in the table below.

	2017		2016	
	value	%	value	%
Railway works	633 583	73,8%	715 350	86,6%
Road works	162 593	18,9%	45 704	5,5%
Bridge works	5 498	0,6%	21 370	2,6%
Tramway works	2 371	0,3%	5 133	0,6%
Energy works	30 370	3,5%	26 054	3,2%
Production	8 690	1,0%	8 136	1,0%
Other areas of activity	15 176	1,8%	4 451	0,5%
Total revenues from sales	**858 281**	**100,0%**	**826 198**	**100,0%**

2.3 Sales markets and supply sources

In 2017 the Company provided its construction and assembly services in Poland.

The key customer of the Company is PKP Polskie Linie Kolejowe S.A. ("PKP PLK S.A."). The customer structure demonstrates that Trakcja PRKiI is still greatly dependent on PKP PLK S.A, whose direct share in the Company's revenues from sales in 2017 is approximately 72.7%. This has been the Company's key customer since the beginning of its operations. PKP PLK S.A. is not formally related to the Company.

The supplier structure in the analysed period demonstrates that Trakcja PRKiI is not heavily dependent on any supplier. In 2017 supplies from none of the suppliers exceeded 10% of the materials and services purchased by the Issuer.

In 2017 the Company opened an establishment in Ukraine. The Company believes that the Ukrainian market is promising, and therefore takes part in the Ukrainian tenders for contracts regarding modernisation of the road infrastructure.

2.4 Significant events and achievements of Trakcja PRKiI which have a considerable impact on its activities

Long-term contracts for construction services performed by the Company have a major impact on its financial performance in 2017 and in the following years. The most considerable contracts performed in the course of 2017 are listed in pt. 2.1 hereof. Information regarding the most significant contracts for construction services concluded in 2017 is presented in pt. 2.5 hereof. Significant events after the balance sheet date are described in pt. 5.7 hereof.

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 Company 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 Company has also taken measures aimed at strengthening its position on other geographical markets and in other segments of the infrastructural construction sector. The Company operates in the tram segment (urban market). Trakcja PRKiI also carries out activities on the energy market.

2.5 Contracts significant for the Company's operations

2.5.1 Key contracts for construction services

The most significant construction contracts entered into by the Company in 2017 (the amounts specified include the value of 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
	Total	**4 275**	

2.5.2 Insurance contracts

The Company has acquired standard insurance policies that ensure insurance coverage for movable assets against damage and for third party liability in relation to the business activities carried out and the assets owned by the Company. It also has insurance contracts for construction risks.

In addition, the Company acquired standard insurance policies that provide third party liability insurance to members of the Company's corporate bodies. 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.

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.

2.5.3 Collaboration and cooperation agreements

The Company and mBank S.A. concluded framework cooperation agreements for financial market transactions. Their provisions define the rules for cooperation in the area of financial market transactions between the Company and the bank. Trakcja PRKiI and mFaktoring S.A. concluded a recourse factoring agreement for an indefinite period.

2.6 Key deposits and capital investments

2.6.1 Capital expenditure

In 2017 the Company's capital expenditure was PLN 22 201 thousand.

In 2017 the Company completed the following projects:

	Acquisition for cash	Leasing	Total
Development investments	11 553	8 071	19 624
Replacement investments	1 002	162	1 164
Modernization investments	1 413	0	1 413
Total	**13 968**	**8 233**	**22 201**

In 2016 the Company completed the following projects:

	Acquisition for cash	Leasing	Total
Development investments	13 610	16 275	29 885
Replacement investments	578	1 711	2 289
Modernization investments	183	0	183
Total	**14 371**	**17 986**	**32 357**

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 and the post-lease purchase of KK2750 pile driver.

Key replacement expenditure was as follows: the lease of 3 vehicles and the replacement of IT equipment (servers, hardware, mobiles).

Key modernisation expenditure was as follows: the modernisation of WM-15H rail vehicle.

In 2018 the Company expects to incur capital expenditure in the amount of approximately PLN 30 922 thousand. It is to be financed as follows:

Cash	17 042
Financial leasing	13 880
Total	**30 922**

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

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

In 2017 the Company made an equity investment. In 2017 the Company opened a branch in Ukraine.

2.7 Strategy and development of the Company

Every year the Company endeavours to increase the scale of its operations, financial power and implementation capacity of contracts, and to become a leader on the Polish rail market in the construction and assembly sector.

In 2018 the Management Board of Trakcja PRKiI expects to continue to improve the Company'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; and
- selective approach to the performance of contracts under consortium agreements.

Key success factors include the implemented incentive systems that encourage employees to seek further improvements in operational activities and close cooperation between the teams comprising employees of different organisational units.

Strengthening the Company’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 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 are better financial liquidity, minimisation of requirement for the working capital and maintenance of the Company's debt at a safe level.

Strengthening the Company's position on other markets

In 2017 the Company opened a branch in Ukraine. The Company believes that the Ukrainian market is promising.

Furthermore, in March 2018 the Company was certified to meet the VOB standards (German constructions standards), which enables it to participate 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. In addition, switching stations manufactured by the Company were provided with certification by Deutsche Bahn.

Diversification of the Company's activities

In order to diversify its activities, the Company 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.

2.8 Company development perspectives

The Management Board believes that the Company has prospects for growth in 2018 and the following years. As at December 31, 2017 the contract portfolio of Trakcja PRKiI was PLN 1 499 million (excluding revenues allocated to consortium members).

The Company consistently develops competences in various infrastructural construction sectors. It 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 Company 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 Company established a structure of regional road offices in six different locations in Poland. The 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.

2.9 Description of external and internal factors significant from the point of view of the Company's development

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

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

- Level of expenditure incurred on the rail and road infrastructure in Poland;
- Efficient opening and signing of contracts by the contracting entities;
- Competition;
- Absence of market barriers;
- Prices of raw materials and construction materials;
- Impact of the Central Bank's monetary policy on the interest rate changes;
- Timeliness in repayment of liabilities by customers; A failure to do so may lead to the deterioration in the Company's financial liquidity;
- Decrease in the number of entities participating in tenders on the Polish rail market;

- Changes in legal regulations designating the scope of the Company'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 Company 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;
- Number of contracts awarded under the National Rail Programme up to 2023;
- Number of contracts awarded under the National Road Construction Programme (2014-2023, with a perspective to 2025);
- Ability to win new construction contracts;
- Ability to attract highly qualified staff;
- Ability to implement the Company's development strategy;
- Ability to further diversify the Company's activities.

2.10 Description of key risk factors and threats, including the extent of the Issuer's exposure

When carrying out its business activities Trakcja PRKiI 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 Company is exposed to a risk of growing competition. The rail and road construction market, on which the Company carries out its activities, is attractive due to the expected significant capital expenditure. Entry barriers to the Polish rail construction market 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 Company's market position is the financial plans of the Polish government with regard to the modernisation of infrastructure.

This industry risk may have a crucial impact on the Company's development perspectives and its financial situation. A competitive advantage of Trakcja PRKiI is its 70-year market practice, which allowed the Company to develop the work order completion systems of high quality, highly appreciated by the Partners. The Company'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 Company has a significant competitive advantage over other companies, and its position on the market of services relating to the rail infrastructure 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 Company'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 Company. When performing the construction contracts awarded, the 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 Company 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. The Company 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 Company is also exposed to a risk of potential disputes regarding the improper or untimely completion of the aforementioned contracts. The aforementioned factors may have an adverse impact of the Company's financial performance.

The Company'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 Company 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 Company expects to achieve essential and permanent cost savings and to optimise its purchases. Furthermore, the long-term market practice has enabled the Company to develop management techniques for the projects performed, which ensure that the Company is able to complete the works assigned to it within the agreed schedules and that simultaneously the required quality is maintained and the special requirements of investors are met.

Financial risk

The Company 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 Company's ability to acquire sources of funding for guarantee products remained unchanged. The Company monitors its capital structure using debt ratios. The ratios analysed by the Company allow for the good credit rating to be maintained and confirm that the Company'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 Company 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 Company develops long- and short-term analyses and forecasts which allow for the Company'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 S.A., include the following:

- Change in the Company's creditworthiness,

- Change in the Company's debt,
- Disposal or purchase of assets by the Company,
- Significant changes in the shareholdership of the Company,
- 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 Company 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 Company.

3. ANALYSIS OF ASSETS AND FINANCIAL CONDITION OF TRAKCJA PRKiI

3.1 Company's financial performance in 2017

3.1.1 Overview of the income statement

PROFIT AND LOSS ACCOUNT	1.01.2017 - 31.12.2017 *Audited*	1.01.2016 - 31.12.2016 *Audited*	Change	Change %
Sales revenue	858 281	826 198	32 083	4%
Cost of goods sold	(815 586)	(787 275)	(28 311)	4%
Gross profit (loss) on sales	**42 695**	**38 923**	**3 772**	**10%**
Cost of sales, marketing and distribution	(2 317)	(2 132)	(185)	9%
General and administrative costs	(22 382)	(25 275)	2 893	-11%
Other operating revenues	3 220	3 548	(328)	-9%
Other operating costs	(2 244)	(5 350)	3 106	-58%
Operating profit (loss)	**18 972**	**9 714**	**9 258**	**95%**
Financial revenues	23 747	25 945	(2 198)	-8%
Financial costs	(6 978)	(5 929)	(1 049)	18%
Gross profit (loss)	**35 741**	**29 730**	**6 011**	**20%**
Income tax	(3 701)	(1 031)	(2 670)	259%
Net profit for the period	**32 040**	**28 699**	**3 341**	**12%**

In 2017, the Company's revenues were PLN 858 281 thousand and increased by 4% as compared to the corresponding period of the preceding year. The cost of goods sold in the analysed period increased by 4% and was PLN 815 586 thousand. The gross profit margin was 5.0% in the period concerned and 4.7% in the analogical period of 2016. The gross profit on sales was PLN 42 695 thousand. The increase in the gross profit margin was caused by the signing between the 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 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.

The general and administrative costs in 2017 decreased by PLN 2 893 thousand, i.e. by 11% in comparison with the previous year. In striving for reduction of costs, the Company decreased payroll costs and costs of consultancy. The cost of sales, marketing and distribution was PLN 2 317 thousand in the analysed period.

A balance of the other operating activities increased by 2 778 thousand as compared to the preceding period. In 2017 the Company reversed the provision for employment restructuring, which was in keeping with Current Report No. 23/2016 published October 18, 2016. Therefore, the provision reversed was PLN 1 831 thousand. A gain thereon was recognised in the other operating revenues.

The operating profit was PLN 18 972 thousand for 2017 and PLN 9 714 thousand for 2016.

In 2017, the Company's financial revenues were PLN 23 747 thousand, i.e. by 8% lower than in the previous year, which resulted mainly from dividends being recognised in the amount by PLN 3 542 lower than in 2016. In the analysed period the financial costs increased by 18%, i.e. by PLN 1 049 thousand as compared to the preceding year.

The Company's gross profit for 2017 was PLN 35 741 thousand, while for 2016 it was PLN 29 729 thousand.

The Company's net profit for 2017 was PLN 32 040 thousand and its net profit margin was 3.7% (3.5% in 2016).

3.1.2 Overview of the balance sheet

The key items of the Company's balance sheet as at December 31, 2017 in comparison with the data as at December 31, 2016 are presented in the table below.

ASSETS	31.12.2017 Audited	31.12.2016 Audited	Change	Change %
Non-current assets	**664 541**	**657 078**	**7 463**	**1%**
Tangible non-current assets	141 389	134 895	6 494	5%
Intangible assets	52 961	54 276	(1 315)	-2%
Investment properties	17 174	17 174	-	0%
Investments in subsidiaries	436 241	436 241	-	0%
Other financial assets	5 507	4 734	773	16%
Deferred tax assets	3 811	7 483	(3 672)	-49%
Accruals	7 458	2 275	5 183	228%
Current assets	**444 634**	**356 980**	**87 654**	**25%**
Inventory	53 105	30 400	22 705	75%
Trade and other receivables	230 975	281 302	(50 327)	-18%
Income tax receivables	134	-	134	-
Other financial assets	10 318	5 836	4 482	77%
Cash and cash equivalents	20 618	18 820	1 798	10%
Accruals	7 749	3 981	3 768	95%
Construction contracts and advances paid towards contracts being performed	118 673	13 579	105 094	774%
Assets held for sale	3 062	3 062	-	0%
TOTAL ASSETS	**1 109 175**	**1 014 058**	**95 117**	**9%**

As at December 31, 2017 the balance sheet total of Trakcja PRKiI was PLN 1 109 175 thousand and increased by PLN 95 117 thousand, i.e. by 9% as compared at the end of 2016.

The Company's non-current assets were PLN 664 541 thousand and increased by PLN 7 463 thousand in comparison with the previous year. The largest increase in the non-current assets pertained to the tangible non-current assets (expenditure on purchases of non-current assets).

As at December 31, 2017 the Company's current assets were PLN 444 634 thousand and increased by PLN 87 654 thousand, i.e. by 25% as compared to their balance as at December 31, 2016. The most significant changes in the current assets consisted in changes in the construction contracts and changes in the advances for contracts, which increased by PLN 105 094 thousand up to PLN 118 673 thousand. The Company’s cash in the analysed period increased by PLN 1 798 thousand up to PLN 20 618 thousand.

Equity and liabilities	31.12.2017 *Audited*	31.12.2016 *Audited*	Change	Change %
Equity	**631 598**	**625 311**	**6 287**	**1%**
Share capital	41 120	41 120	-	0%
Share premium account	309 984	309 984	-	0%
Revaluation reserve	5 804	5 800	4	0%
Other capital reserves	242 643	239 717	2 926	1%
Retained earnings	32 040	28 699	3 341	12%
Foreign exchange differences on translation of foreign operations	7	(9)	16	-178%
Total liabilities	**477 577**	**388 746**	**88 831**	**23%**
Long-term liabilities	**51 178**	**80 736**	**(29 558)**	**-37%**
Interest-bearing loans and borrowings	44 508	54 759	(10 251)	-19%
Provisions	4 035	17 577	(13 542)	-77%
Liabilities due to employee benefits	2 635	8 400	(5 765)	-69%
Short-term liabilities	**426 399**	**308 011**	**118 388**	**38%**
Interest-bearing loans and borrowings	19 737	16 249	3 488	21%
Trade and other liabilities	252 084	245 053	7 031	3%
Provisions	7 316	19 722	(12 406)	-63%
Liabilities due to employee benefits	8 099	7 200	899	12%
Tax liabilities	-	2 095	(2 095)	-100%
Accruals	366	258	108	42%
Construction contracts and advances received towards contracts being performed	138 797	17 434	121 363	696%
TOTAL EQUITY AND LIABILITIES	**1 109 175**	**1 014 058**	**95 117**	**9%**

As at December 31, 2017 the Company's equity increased by PLN 6 287 thousand, i.e. by 1% as compared to its balance as at December 31, 2016. This increase was caused by the net profit of PLN 32 040 thousand and by the dividend distribution of PLN 25 700 thousand.

As at December 31, 2017 the long-term liabilities were PLN 51 178 thousand and decreased by 37%, in comparison with their balance as at the end of 2016.

As at December 31, 2017 the short-term liabilities were PLN 426 399 thousand and increased by PLN 118 388 thousand, i.e. by 38% in comparison with their balance as at the end of the preceding year. The increase in the short-term liabilities resulted mostly from an increase in the construction contracts and in the received advances for contracts, which amounted to PLN 121 363 thousand.

3.1.3 Overview of the statement of cash flows

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

CASH FLOW STATEMENT	1.01.2017 - 31.12.2017 *Audited*	1.01.2016 - 31.12.2016 *Audited*	Zmiana	Zmiana %
Cash at start of period	**18 820**	**136 025**	**(117 205)**	**-86%**
Net cash flows from operating activities	41 570	(94 093)	135 663	-144%
Net cash flows from investment activities	5 400	(12 228)	17 628	-144%
Net cash flows from financial activities	(45 172)	(10 884)	(34 288)	315%
Total net cash flows	**1 798**	**(117 205)**	**119 003**	**-102%**
Cash at end of period	**20 618**	**18 820**	**1 798**	**10%**

At the beginning of 2017, the Company's cash was PLN 18 820 thousand, while at the end of the period analysed it was PLN 20 618 thousand.

The total net cash flows were positive and amounted to PLN 1 798 thousand.

In 2017 the net cash flows from operating activities were positive and amounted to PLN 41 570 thousand. They increased as compared to the corresponding period of the previous year by PLN 135 663 thousand.

The net cash flows from investment activities in 2017 were PLN 5 400 thousand, and their balance at the end of 2016 was negative (PLN -12 228 thousand). The positive cash flows from investment activities in 2017 resulted primarily from the dividend paid by the Company's subsidiaries.

The net cash flows from financial activities in 2017 were negative and amounted to PLN -45 172 thousand. That was mainly caused by the dividend distribution to shareholders and by the repayment of finance lease liabilities.

3.2 Financial ratios of Trakcja PRKiI

3.2.1 Profitability ratios

The gross sales profit margin in 2017 was higher than in 2016 (accordingly, 4.97% in 2017 and 4.71% in 2016). The EBITDA increased by PLN 10 869 thousand and was PLN 32 780 thousand, while the EBITDA margin increased by 1.17 p.p. up to 3.82%. The operating profit margin increased by 1.03 p.p. up to 2.21%. The net profit margin in the analysed period was 3.73%.

The return on equity (ROE) was 5.10%. The return on assets (ROA) was 3.02% and was higher by 0.05 p.p. as compared to the preceding year.

PROFITABILITY RATIOS	31.12.2017 *Audited*	31.12.2016 *Audited*	Zmiana
Gross sales profit margin	4,97%	4,71%	0,26%
EBITDA	32 780	21 911	10 869
EBITDA profit margin	3,82%	2,65%	1,17%
Operating profit margin	2,21%	1,18%	1,03%
Net profit margin	3,73%	3,47%	0,26%
Return in equity (ROE)	5,10%	4,63%	0,47%
Return on assets (ROA)	3,02%	2,97%	0,05%

The aforementioned ratios are calculated according to the following formulas:
Gross profit margin on sales = gross profit on sales / sales revenues
EBITDA = operating profit + amortisation and depreciation
EBITDA profit margin = (operating profit + amortisation and depreciation) / sales revenues
Operating profit margin = operating profit / sales revenues
Net profit margin = net profit / sales revenues
Return on equity (ROE) = net profit / average equity
Return on assets (ROA) = net profit / average assets

3.2.2 Liquidity ratios

The working capital of Trakcja PRKiI as at December 31, 2017 was PLN 18 601 thousand and as at the end of 2016 it was PLN 49 228 thousand.

As at the end of 2017 the current ratio was 1.04. The quick ratio was 0.92. The cash ratio was 0.05. The liquidity ratios in 2017 were similar to those in the preceding year.

LIQUIDITY RATIOS	31.12.2017 *Audited*	31.12.2016 *Audited*	Change
Working capital	18 601	49 228	(30 627)
Current ratio	1,04	1,16	(0,12)
Quick ratio	0,92	1,06	(0,14)
Cash ratio	0,05	0,06	(0,01)

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

3.2.3 Debt ratios

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

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

As at December 31, 2017 the equity to assets ratio was 0.57 and decreased by 0.05 as compared to the end of the comparable year. The equity to non-current assets ratio did not change in comparison with its level as at December 31, 2016. As at the end of 2017, the debt ratio was 0.43. The debt to equity ratio increased from 0.62 as at the end of 2016 to 0.76 as at the end of 2017.

FINANCING STRUCTURE RATIOS	31.12.2017 *Audited*	31.12.2016 *Audited*	Change
Equity to assets ratio	0,57	0,62	-0,05
Equity to non-current assets ratios	0,95	0,95	0,00
Debt ratio	0,43	0,38	0,05
Debt to equity ratio	0,76	0,62	0,14

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 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

3.3 Assessment of financial resources management

As at the end of 2017 the Company had cash and cash equivalents in the amount of PLN 20 618 thousand and its total debt (loans, borrowings and finance lease) was PLN 64 245 thousand. The Company maintains a safe level of both external funding and financial liquidity. Any temporary cash surpluses are invested in short-term bank deposits.

As at December 31, 2017 Trakcja PRKiI had at its disposal an overdraft and a working capital loan in the total amount of PLN 90 million, which provided it with a stable level of financing for its ongoing contract activities. The Company was also granted a factoring limit in the amount of PLN 50 000 thousand.

The Company 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 implement the construction contracts scheduled.

The Company uses various bank products and funding sources (overdrafts, working capital loans, investment loans, borrowings, 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 Trakcja PRKiI S.A. in 2017

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

Termination of the optimisation of the Trakcja PRKiI organisational structure

In view of the significant delay in the Financial Framework 2014-2020 in terms of public tenders to be announced on the infrastructure market, mainly the rail one, having thoroughly analysed all the business and social aspects, the Company's Management Board decided to optimise of 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 Company completed the 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.

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 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 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 Company's Management Board, Trakcja PRKiI is able to finance its current and future investment projects specified in Note 2.6.1 hereof using the funds generated from its operating activities and acquiring external funds.

3.6 Hedging transactions

In 2017 the Company's operations were not significantly exposed on the fluctuations of foreign exchange rates. All the contracts performed in 2017 were expressed in Polish zlotys. During the reporting period the Company did not enter into any derivative contracts. The Company did not apply any hedge accounting in the reporting periods included herein.

3.7 Position of the Management Board as regards previously published forecasts of the Company's financial performance

Trakcja PRKiI did not publish any financial forecast for 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.

The Company's shareholdership is presented in the table below.

	31.12.2017 Audited	**31.12.2016 Audited**
	Par value 0.8 PLN	Par value 0.8 PLN
Series A ordinary shares	51 399 548	51 399 548
Total	**51 399 548**	**51 399 548**

To the best knowledge of the 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 the shares in the Company, of which the Company informed in Current Report No. 19/2017 and Current Report No. 20/2017, the number of shares held by COMSA S.A. was 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 Company, it was assumed that the shares were sold by other shareholders.

The shareholdership of the Company 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 Company has not received any notifications from its shareholders informing it about any change in the total number of votes in the Company.

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

On November 17, 2017 the Company was notified of the joint acquisition of 132 400 shares in the Company by Jarosław Tomaszewski (President of the Company's Management Board) and Maria Joanna Tomaszewska as a person closely related to Jarosław Tomaszewski (wife). The 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 Company's Management Board, the Supervisory Board members and other members of the Management Board did not hold any shares in Trakcja PRKiI 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.

As at the submission hereof the Company's Management Board members or Supervisory Board members do not hold shares in any entities within Trakcja Group.

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 PRKiI did not implement 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 loans and borrowings incurred and terminated in the financial year concerned

The list of loans and borrowings incurred by Trakcja PRKiI as at December 31, 2017 is presented in the table below.

Lender	Type of loan/credit	Amount according to the agreement in the currency	Currency	Maturity date	Interests	Outstanding amount (in ths. PLN)
mBank S.A.	project purpose loans	21 500	PLN	30.09.2021	WIBOR 1M + margin	18 970
mBank S.A.	working capital loans	50 000	PLN	27.09.2019	WIBOR 1M + margin	-
mBank S.A.	overdraft	20 000	PLN	26.04.2018	WIBOR O/N + margin	-
Pekao S.A.	working capital loans	20 000	PLN	31.05.2018	WIBOR 1M + margin	-
mLeasing Sp. z o.o.	project purpose loans	22 400	PLN	16.09.2019	WIBOR 1M + margin	8 761
					TOTAL	**27 731**

As at December 31, 2017 the total of loans and borrowings incurred by the Company was PLN 27 731 thousand and consisted entirely of the investment loan.

In addition, in keeping with the agreements concluded by the Company as at December 31, 2017, the Company had access to an overdraft and working capital loan in the total amount of PLN 90 million (31.12.2016: PLN 90 million). The Company also has been granted a factoring limit in the amount of PLN 50 000 thousand.

Loans and borrowings incurred in 2017

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.

Loans and borrowings expired or terminated in 2017

No loans or borrowings expired or were terminated in the course of 2017.

5.2 Information on borrowings extended in the financial year

Borrowings extended by the Company in 2017 are presented in the table below.

Borrower	Amount of loan (ths. PLN)	Currency	Maturity date	Interests	Amount left to be paid	Capital relationship
Dalba Sp. z o.o.	1 000	PLN	31.03.2018	WIBOR 1 M + margin	1 012	subsidiary
TOTAL	**1 000**				**1 012**	

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

In 2017 the Company did not 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 the Company was not granted any sureties or guaranties by its 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

Sureties, guarantees and other contingent liabilities are presented in the table below.

	31.12.2017 Audited	31.12.2016 Audited
Contingent receivables		
From related entities due to:	**78 389**	**70 075**
Received guarantees and sureties	75 212	65 240
Bills of exchange received as collateral	3 177	4 835
Total contingent receivables	**78 389**	**70 075**
Contingent liabilities		
From other entities due to:	**2 313 021**	**2 002 238**
Provided guarantees and sureties	701 044	509 877
Promissory notes	481 638	547 720
Mortgages	99 000	99 000
Assignment of receivables	897 275	722 767
Assignment of rights under insurance policy	47 305	41 559
Security deposits	19 765	12 133
Other liabilities	66 994	69 183
Total contingent liabilities	**2 313 021**	**2 002 239**

Contingent receivables from the guarantees and sureties granted include guarantees issued by banks and other entities for the benefit of the Company as collateral for the Company'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 the Company's contractors as collateral for their claims against the Company under the construction contracts performed. Banks have a right of recourse against the Company. 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 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

As at December 31, 2017 the 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 Company also informs that the total value of the proceedings concerning its claims and liabilities constitutes at least 10% of the Company's equity. As at December 31, 2017 the total value of the proceedings concerning the Company's claims was PLN 160 326 513.79 and the total value of proceedings concerning the 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)

Trakcja S.A. in Warsaw 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 dated 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 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 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 Company filed a complaint which was overruled. On June 8, 2015 the 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 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 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 Company informed in the consolidated report for the 9-month period ended on September 30, 2017 in Note 25 "Interests in joint ventures", the 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 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 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 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 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 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 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 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 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 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 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.

5.7 Significant events after the balance sheet date

Significant 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

5.8 Transactions with related entities

All transactions of the Issuer with its related entities were made at arm’s length.

Information about the transactions with related parties is detailed in Note 52 to the Annual Financial Statements of Trakcja PRKiI S.A. for 2017.

5.9 Remuneration of the Management Board members and Supervisory Board members

Remuneration of the Company's Management Board members in 2017 is 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 Management Board	600	189	43	**832**	-	-	-	-
Marek Kacprzak	Vice-President of the Management Board	600	195	45	**840**	-	-	-	-
Sobczyk Maciej	Vice-President of the Management Board since 14.09.2017	179	-	-	**179**	-	-	-	-
Rusevicius Aldas	Vice-President of the Management Board 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 charged to the costs of Trakcja PRKiI and the remaining amount, i.e. PLN 1 097 thousand was charged to the expenses of the subsidiaries.

Remuneration of the Issuer's Supervisory Board members in 2017 is 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**

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5.10 Agreements concluded between the Company and managers

The 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 Company is one of the leaders when it comes to the introduction of innovative solutions. The 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 Company was awarded a prize in the category of completed line and building project implemented in Poland in the Competition for the Józef Nowkuński 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 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 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 auditing and reviewing the financial statements and for other services is presented in the table below.

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
On account of agreement for financial statement audit	168	144
On account of agreement for financial statement review	76	72
Other certified services	41	5
Total	**285**	**221**

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.

The chief statutory auditor and the audit company stated that in 2017 they rendered for the entity or for the entities under the entity's control 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 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.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, 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 Associations, 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 are as follows:

- 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 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 Supervisory Board members are appointed for 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 Supervisory Board members may 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 statutory 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 drawn up 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 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%
Pozostali akcjonariusze*	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. Except for the above restrictions and those following from the commonly applicable regulations, the Company's internal regulations do not introduce any additional limitations.

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

Except for the restrictions following from the commonly applicable regulations, the Company's internal regulations do not introduce any additional limitations.

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 Associations, 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 Company 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 Company 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.

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 financial statements of Trakcja PRKiI S.A. for the period from January 1, 2017 to December 31, 2017 and the comparative 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 Company's assets and financial condition as well as its financial performance in a true, reliable and clear manner. The Management Board's report on the activities of the Issuer presents a true picture of the development, achievements, risks, threats and situation of Trakcja PRKiI S.A.

We also state that the entity authorised to audit financial statements which examines the annual financial statements of Trakcja PRKiI S.A. 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

TRAKCJA PRKiI S.A.

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 PRKiI S.A. 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 PRKiI S.A. The Company 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 Company's 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 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 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 have all the aspects which are significant for the Company reported.

Trakcja PRKiI S.A. (hereinafter referred to as the "Trakcja PRKiI", "Company", "our Company" or "Trakcja") is one of the largest companies operating in the infrastructure construction and energy sectors in Poland.

The headquarters of Trakcja PRKiI S.A. are located in Warsaw at ul. Złota 59. The Company is the parent company in the Trakcja Group. 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.

I. Key stakeholders and relationships with them

Being aware of the fact that the Company's impact on the environment in which many significant groups of its stakeholders operate is significant, the Company continuously endeavours to be in regular contact with all the groups and to communicate with them in an effective manner. The Company is open to all signals emanating from the environment, in particular, those aimed at identifying new stakeholders. The Company finds it important to react to them swiftly. The Company 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. The Company knows which aspects of social responsibility are important for stakeholders. The Company has implemented measures matching the needs identified, such as regular meetings with investors or media, or engagement in business contacts that Polish authorities have established abroad, for example, in Bulgaria or Ukraine, where Trakcja PRKiI has opened an organisational unit.

Relationships between the Company 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 Company focuses on dialogue and transparent communication.

Knowing social expectations, the Company is able to react to the needs of its environment faster and with more precision. The Company 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 Company 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.

The Company has created a stakeholder matrix. The stakeholder matrix is a result of the analysis of the scope of the Company’s environmental impact. It was created through the direct identification of persons or their groups, and of institutions, and also by analysing economic or social phenomena and events resulting in the Company exerting an environmental impact and providing evidence that stakeholders related thereto exist. The stakeholder matrix is subject to continuous review. In 2017 it was expanded by a new group identified as a result of the Company having entered a new market, i.e. municipal investors. The distinguishing features of this group are the scope of its operations which is limited to larger agglomerations with high population density and small areas and the absolute sensitivity to any changes that may affect the current life style of its inhabitants. In the recent years, because of the construction works carried out in the well-defined railway areas, in the majority of cases located outside the densely populated residential areas, the Company did not have any relationship with this group of stakeholders. A wide range of the Company’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 SA and GDDKiA,
- employees,
- consortium members,
- suppliers of goods and services,

- local authorities,
- other customers,
- public opinion,
- local communities,
- subcontractors.

II. Business model

GRI G4-4

Trakcja PRKiI S.A. has over 70 years of experience of implementing multi-sector infrastructure investment projects related to rail transport. In recent years, the Company has regularly incorporated in its structures many subsidiaries and as a result has expanded its competences and gained both experienced staff at every level of management and the specialised equipment. Simultaneously, in particular, after its successful IPO on the Warsaw Stock Exchange in April 2008, the Company has embarked on a path to the highest management standards and creditworthiness on the capital market. Nowadays, the Company enjoys a high level of confidence expressed by financial institutions and insurance companies, as well as the acknowledgement of its customers which perceive the Company as a reliable and responsible entity.

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 contact lines, 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's goal is to continuously maintain a high level of services in the area of design, construction and manufacture of equipment. The Company 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 Company's employees participate in this process, take full responsibility for the quality of their work and play an active part in boosting the Company's image in its customers' eyes.

It is especially important to the Company 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 Company's quality standards,
- we upgrade our machinery in order to enhance the competitiveness of our 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.

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.

For over three years the Company has been expanding its operations into further industries and new markets, building on its solid financial fundamentals and wide experience. Under the rail contracts worth several hundred million Polish zlotys, the Company implemented various works in other industries, which are complementary to the rail works, in particular, in the construction and energy industries and in the civil engineering construction sector. The experience gained and the appropriate financial capacity have brought since 2015 a dynamic increase in the number of road contracts awarded to the Company as an independent contractor. Since 2016, using the same model, the Company has been developing its operations in the energy industry, mainly in the area of constructing transmission lines and supplying electricity to facilities. The portfolio of energy contracts contains several dozen of contracts whose value and technology advancement have been systematically growing. This way Trakcja PRKiI expects to expand its share in the infrastructure construction market in Poland and also abroad. The current expansion is oriented towards the construction and modernisation of tram lines and towards such neighbouring countries as Ukraine, Scandinavian States, Baltic States and the Balkans, where the Company intends to develop its activities in the rail and road industries.

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.

Sales structure

In 2016 and 2017 the Company generated revenues primarily from rail contracts.
The types of the contracts implemented are however gradually diversified.

(in ths. zlotys)

	2017		2016	
	value	%	value	%
Railway works	633 583	73,8%	715 350	86,6%
Road works	162 593	18,9%	45 704	5,5%
Bridge works	5 498	0,6%	21 370	2,6%
Tramway works	2 371	0,3%	5 133	0,6%
Energy works	30 370	3,5%	26 054	3,2%
Production	8 690	1,0%	8 136	1,0%
Other areas of activity	15 176	1,8%	4 451	0,5%
Total revenues from sales	**858 281**	**100,0%**	**826 198**	**100,0%**

The Company performs the following contracts:

Rail contracts

The rail construction contracts are mainly made for:

- the construction and modernisation of rail track superstructure,
- the construction and reconstruction of rail track bed, including the drainage system,
- the improvement of rail lines,
- the comprehensive completion of rail contracts.

The specificity of the works carried out by the Company derives, to a significant extent, from rail works, however, before the works are commenced a series of the preparatory and accompanying works, as required in accordance with the technology applied. Before the commencement of the works, temporary access roads are constructed and commune and district roads are renovated, while any trees and plants that collide with the scope of the works performed are cut down.

In addition to this, repairs and renovations of the existing contact line are carried out. At this stage, the cast, prefabricated or piled foundations are constructed, along with poles, contact lines and contact line switches with manual or engine drives.

The investment projects implemented by the Company also focus on improving safety of the railway crossings. This is achieved through the construction of a new panel superstructure and replacement of traffic control devices.

The railway works are inseparably accompanied by repairs and construction of new civil engineering structures such as culverts, overpasses, bridges, ecoducts (wildlife crossings), underpasses and platforms, along with the comprehensive passenger information system, and also the construction of new drainage system for tracks and structures. When contracts are implemented, in addition to the feasible aspects, every effort is made to integrate the Company's works aesthetically into the surrounding landscape, which is important for both the travellers and local residents.

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 connect line equipment.

Road contracts

The rail contracts are mainly for the construction of such infrastructure as:

- 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.

Energy contracts

As part of its diversification strategy, the Company started operating on the energy market. The energy contracts are for:

- the construction and reconstruction of 110 kV overhead and cable power supply lines,
- the construction of HV and MV transformer substations,
- the construction and reconstruction of LV and MV lines,
- the construction of electric and ICT networks in hospitals, stadiums and sports halls,
- the construction of a street lighting system and the supply of electricity to the automatic transfer switch equipment along fast highways.

The specificity of the activities carried out in this segment derives, to a significant extent, from energy works, but involves also the performance of additional works such as foundation works, construction of temporary access roads and renovation of commune and district roads, and also elimination of trees and plants that collide with the energy infrastructure structures. The team of experienced employees is responsible for implementing contracts worth between PLN 70 million and PLN 100 million. Specialist electric power works such as tensioning works, line assembly works, station assembly works, specialist assembly works in buildings, are mostly performed by the Company's electrical line installers, and only some additional works are subcontracted.

Cooperation with suppliers

GRI G4-12

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
- TERM OF WARRANTY
- Due date of payment

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 by the Company.

Safety requirements for subcontractors

The Company puts great emphasis on the occupational health and safety of its 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.

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 Trakcja PRKiI S.A.

In response to the aforementioned challenges, the 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, the Company has introduced an attractive incentive system for selected groups of employees strongly interrelated with their professional achievements.

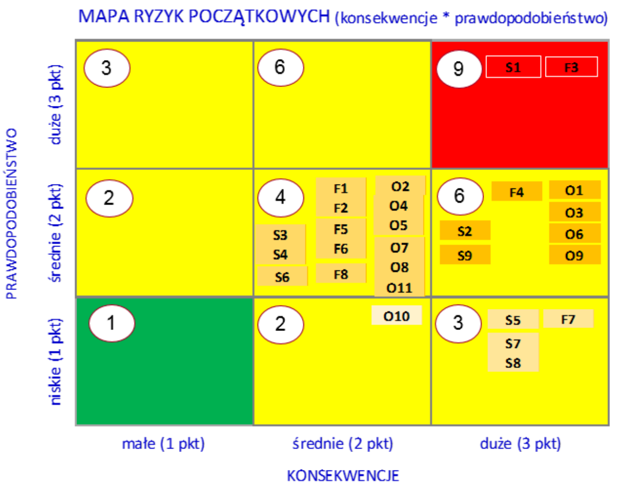
Identification and assessment of macro risks

Having analysed several various sources of information, the 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 Company'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 Company’s activities.

The aforementioned information was summarised in the synthesis report entitled “Risk Profile” which was drawn up and implemented in the 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 – operating 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?

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 Company is to implement the risk management system in construction contracts (micro risks).

The 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 is the risk management process for the construction contracts to be organised?

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.

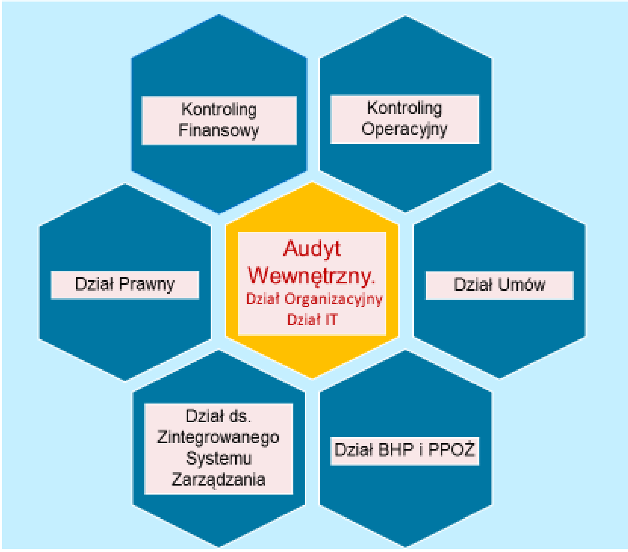
Internal Control System at Trakcja PRKiI S.A.

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 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 BPH i PPOŻ	OHS & FP Department
Dział ds. Zintegrowanego Systemu Zarządzania	Integrated Management System Department
Legal Department	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?

- 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 DMA-SO; 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. The Company understands corruption as 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 cash and objects, but also promises of benefits.

The Company 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 get revealed to third parties.

The Company 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 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 Company 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 Company's operations. These principles are the final and fundamental point of reference for employees as far as ethical and non-ethical behaviour is concerned.

Code of Ethics

Based on common values, the Code of Ethics of Trakcja Group was adopted in 2016 and is available to every employee of the Company.

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 Company'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 Company does not tolerate any actions that may be found offensive or humiliating, slandering, assailing, blackmailing, sexually molesting or intolerant.

In keeping with the 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 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 HR Department Manager to explain any ethical doubts they have or to advise them on how they should behave in certain situations.

The 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 Company 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 Company 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 Company 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 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 whistleblower 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 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 Company's Management Board shall 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 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.

Environmental objectives and their achievement in 2017

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

The Company's environmental impact control

The following are examples of the areas of activities which the Company carries 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, - CO_2 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 Company and its stakeholders. Due to a nature of the activities carried out by the Company, 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. Despite the obvious benefits from rail and road lines, both social and economic, it is worth remembering that each project of the Company most often implies a permanent and irrevocable transformation of landscape and natural environment, which may constitute an inconvenience for local communities.

Rail investment projects 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 Company. One of them to plan rail lines 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, the Company attaches great importance to the planning of new plantings. They are distributed in such a way as to lead animals to the migration passes. Furthermore, the prepared 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 Company 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 Company is also prepared for any emergencies that may have an effect on biodiversity. The Company 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 Company carried out works involving the reallocation of the colliding infrastructure. The Company's works could pose 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 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 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 Company 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

GRI DMA-EN

The Company 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 materials or raw materials by weight or volume.

GRI G4-EN1

Materiał	Year ended 31.12.2017	31.12.2016
Aggregate (t)	700 000	480 850
Plank (m3)	107	76
Cement (t)	818	1 584
Felt (m2)	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 Company endeavours to optimise consumption of energy not only to mitigate its adverse environmental impact but also to reduce operating and environmental costs. 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.

The table below presents consumption of energy inside the organisation in the Company

Energy (GJ)	Year ended 31.12.2017	31.12.2016
Heating energy	4 498	4 100
Electricity	1 953	6 898
Gas energy	1 988	2 164
Heating oil	4 891	4 510
Diesel oil	86 611	58 180
Petrol	5 212	2 636
LPG gas	156	106
Total consumption of energy and fuels	**105 309**	**78 594**

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

Air emissions

DMA-EN

The nature of the Company'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 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 Company 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.

Emission of the main 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	399	261
Carbon monoxide	442	441
Other dusts	63	93
Zinc	0	3
Non-metallic oxides	7	0
Benzopiren	0	0
Sulphur dioxide	164	108

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 Company'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 Company 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 Company in 2017 as compared to 2016 (t).

	Year ended	
Type of waste	**31.12.2017**	**31.12.2016**
Other engine, transmission and lube oils	2	4
Concrete waste	5 769	6 360
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	6	12 368
Other	13	7

The total waste generated in 2017 was 84 220 tonnes,
including hazardous waste of 330 tonnes,
and waste other than hazardous of 83 890 tonnes.

GRI G4-EN2

The total waste generated in 2017 was 84 220 tonnes, including 29 511 tonnes used for internal purposes. This is 35.04% of the total waste and 35.18% of waste other than hazardous.

Waste used for internal purposes:

	Year ended	
Waste (tonnes)	**31.12.2017**	**31.12.2016**
Concrete waste and concrete rubble	1 071	5 400
Asphalt waste	60	1 500
Track ballast	5 080	115 400
Soil mass	23 300	0

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.

V. Social and employee aspects

GRI DMA-LA; GRI G4-LA2

Trakcja PRKiI employs nearly 1100 employees and is one of the largest employers in its industry. There are over 20 different professions practised, which are specific to the rail, road and energy industry, and therefore it is fundamental to develop and maintain employee competences as they are the foundation for the 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. Trakcja PRKiI endeavours to build long-lasting relationships with its employees by offering them 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 English 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 Company carries out construction works in many industries, it offers its employees ample opportunities to develop competences within a single organisation. 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 Company's concern for employees' professional competences is also reflected in the variety of medical assistance benefits and social care it provides them with. The Management Board of Trakcja PRKiI is in continuous contact with trade unions that operate within the Company. Effective communication with a social partner is the foundation for a number of organisational changes, in particular in the employment restructuring process or in the remuneration regulations. Good relations with the trade unions reflect positively on the efficiency of social activities focused on our employees.

In 2017 the Company adopted 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. The regulations define, in particular, methods for awarding bonuses to employees and their amounts. The Company has also adopted the Bonus Payment Procedure.

Structure of employment

GRI G4-10; GRI G4-LA12

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

Total number of employees by gender:

	31.12.2017	31.12.2016
Women	174	141
Men	896	796
Total	**1 070**	**937**

The share of women in the employment structure reflects the nature of the construction industry. Nearly 90% of the employment structure consists of the production employees, mostly blue collars and heavy equipment operators. An increase in the share of women in 2017 results, primarily, from the engagement of female personnel in the areas of production responsible for administration and technical supervision.

Total number of employees by age:

	31.12.2017	31.12.2016
< 30	225	163
Between 30 and 50	569	503
> 50	276	271
Total	**1 070**	**937**

Total number of employees by type of contract and gender:

	31.12.2017		31.12.2016	
	Women	Men	Women	Men
Contract of unlimited duration	140	720	113	668
Contract of limited duration	34	176	28	128
Total	**174**	**896**	**141**	**796**

	31.12.2017		31.12.2016	
	Women	Men	Women	Men
Full-time employment	172	892	137	793
Part-time employment	2	4	4	3
Total	**174**	**896**	**141**	**796**

The Company'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 hiring of over 300 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	10	42	10	40
Management	17	175	10	104
White-collar employees	145	133	119	140
Blue-collar employees	2	541	2	509
Total	**174**	**896**	**141**	**796**

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%

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

There is no significant gender pay gap in the Company. In two employment groups it is men who are better paid and in the other two it is women. Employees in the lowest category of employment earn an average of over 60% more than the minimum remuneration in Poland.

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	105%	110%
Management	93%	96%
White-collar employees	103%	108%
Blue-collar employees	98%	93%

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

In the preceding year the Company continued to strive for equal average pay for men and women.

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	181%	177%
Men	176%	165%
The minimum remuneration in Poland (PLN)	**2 000**	**1 850**

Employee turnover

GRI G4-LA1

The increased employee turnover in 2017 resulted from the restructuring process in the 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 Company's focus in 2017 was mainly on recruiting employees.

New employees by age and gender:

	2017	2016
< 30	143	64
Between 30 and 50	154	104
> 50	37	23
Total	**334**	**191**

	2017	2016
Women	53	28
Men	281	163
Total	**334**	**191**

% of the newly employed in the total number of employees	**31%**	**20%**

Departing employees by age and gender:

	2017	2016
< 30	45	56
Between 30 and 50	99	85
> 50	38	84
Total	**182**	**225**

	2017	2016
Women	17	21
Men	165	204
Total	**182**	**225**

Fluctuation ratio	**17%**	**24%**

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, Trakcja PRKiI continued to efficiently meet its ongoing human-resources needs and effectively acquired personnel for the development of the Company's new competences.

Training

GRI DMA-LA; GRI G4-LA9

The Company 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 Company's employees participated in nearly 8 thousand hours of training. The number of training hours remained at a comparable level, but considering high turnover, it can be concluded that the trend was upward.

Number of training hours by employment category and gender:

	2017		2016	
	Women	Men	Women	Men
Management Board	0	0	0	64
Senior management	16	40	0	24
Management	16	1 800	0	208
White-collar employees	160	216	344	312
Blue-collar employees	0	5 792	24	7 432
Total	**192**	**7 848**	**368**	**8 040**

Average number of training hours by employment category and gender:

	2017		2016	
	Women	Men	Women	Men
Management Board	nd	0,0	nd	21,3
Senior management	1,6	1,0	0,0	0,6
Management	0,9	10,3	0,0	2,0
White-collar employees	1,1	1,6	2,9	2,2
Blue-collar employees	0,0	10,7	12,0	14,6
Average number of training hours	**1,1**	**8,8**	**2,6**	**10,1**

Risk associated with employment issues

The Company 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.

A key preventive measure taken was the implementation by the 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 Company implemented several types of bonuses for short-, medium- and long-term goals. The Company monitors, on an ongoing basis, current wage rates, which enables it to keep its remunerations at an attractive level. Furthermore, the Company endeavours to monitor and control, on a regular basis, training needs associated with individual job positions.

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

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

The Company 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 Company manages risk related to the occupational health and safety aspects in accordance with the policies described below.

In order to achieve this, we have implemented an occupational safety management system that is 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 system is audited by the certification body (TÜV SÜD Polska) on an annual basis. In order to ensure a high safety culture, the Company has its 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.

OHS preventive actions

The Occupational Health and Safety Management Policy which has been applicable to the 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 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 our actions, the 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 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 the Company's 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 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 Company implemented the two following management systems that are very important from the point of view of railway safety:

Safety Management System (SMS) – Being a railway carrier, the 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 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 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 2017, training was held for:

1) employers and persons responsible for managing human resources – 81 people,
2) administration and office employees – 32 people,
3) blue collar workers – 509 people,
4) engineers and technicians – 31 people,
5) railway traffic workers (including, train managers, signallers, railway and construction machine and equipment operators) – 20 people,
6) occupational health and safety personnel – 8 people,

The educational and preventive process implemented by the Company 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, Trakcja PRKiI 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 Company plays an important role in providing for adequate technical conditions for the rail traffic and modernisation and construction of rail lines in Poland.

The Company 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 Company and its customers. Each customer is guaranteed cooperation based on such values as professionalism, accountability, efficient management, respect, 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. The Company is aware of the fact that the contracts performed by it entail not only benefits, but also certain inconveniences for local communities.

The construction works performed cause increases in vehicle traffic, dust and noise. During the implementation of the railway contracts, certain level crossings need to be closed, there are changes made to the train schedule and certain connections are suspended, which has a significant impact on lives of local people. The Company 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, whose participants are the investor and the supervision engineer, are usually held once a week. Their purpose is to analyse the issues raised by residents and local authorities and to agree on actions aimed at minimising any inconveniences caused by a given contract. The Company 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 PRKiI engages, as far as practicable, local employees, subcontractors and suppliers.

CSR activities

The Company supports sport, cultural and charitable activities. The 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. We also support any sport-related employee initiative and sponsor the company football team (kit, training and tournaments) and the participation of the Company's employees in the company races. For several years all greeting cards have been purchased from a foundation that collects funds for charitable purposes.

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 Company 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 Trakcja PRKiI 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. Media are monitored 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, 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.
6. Supporting local communities. Trakcja PRKiI as a socially responsible company supported local initiatives that were lunched during the implementation of the contracts.

Human rights and child labour and forced labour

GRI G4-HR5; GRI G4-HR6

Trakcja PRKiI has adopted and adheres to the Code of Ethics which is an expression of the Company's attitude towards the provisions of law that regulate civil rights and employment rights. In addition to the observance of national laws the Company 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 PRKiI is a reliable employer providing stability of employment, which is demonstrated by the slightly rising 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 Company comprehensively regulated issues related to decent working and living conditions of employees, and therefore basic human rights. The Company mitigates the risk of violation of labour regulations. A nature of work requires that nearly 80% of 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 Company has achieved a high level of employee satisfaction and respected their basic human rights.

The Company 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 Company.

VI. Selected GRI ratios presented herein

Ratio no.	Ratio name	Comments/ Description	Page
Organisational profile			
G4-4	Primary brands, products or services	[Business model]	5
G4-10	Total number of employees by employment type, employment kind, employment contract, region and gender	[Structure of employment]	24
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]	8
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]	13
Detailed information			
Category: Economic			
Market presence			
DMA-EC	Approach to management	[Pay equity]	26
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	[Pay equity]	26
Category: Environmental			
Raw materials and materials			
DMA-EN	Approach to management	[Consumption of materials]	20
G4-EN1	Materials/ Raw materials used by weight or volume	[Consumption of materials]	21
G4-EN2	Percentage of materials used that are recycled input materials	[Waste]	23

Energy			
DMA-EN	Approach to management	[Energy consumption within the organisation]	21
G4-EN3	[Energy consumption outside the organisation]	[Energy consumption within the organisation]	21
Biodiversity			
DMA-EN	Approach to management	[Biodiversity]	18
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]	18
Emissions			
DMA-EN	Approach to management	[Air emissions]	22
G4-EN21	NOx, SOx and other significant air emissions by type of compound and weight	[Air emissions]	22
Affluence and waste			
G4-EN23	Total weight of waste by type and disposal method	[Waste]	23
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 Company 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]	24
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	[Employee turnover]	26
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	[Social and employee aspects] All employees are provided with the same benefits.	24
Occupational health and safety			
DMA-LA	Approach to management	[Occupational health and safety]	28
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 employees.	
G4-LA8	Occupational health and safety topics covered in formal agreements with trade unions	Company Regulations, signed and accepted also by the Chairpersons of Trade Unions. All changes in the Company Regulations must be	

		accepted also by the Chairpersons of Trade Unions. Certain issues covered by the document: standards for personal protective equipment distribution and rules for their use; list of particularly arduous works or works harmful for women's health; list of particularly hazardous works and works associated with high physical or mental effort	
Education and training			
DMA-LA	Approach to management	[Training]	27
G4-LA9	Average hours of training per year per employee by gender and employee category	[Training]	27
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]	24
Equal remuneration for women and men			
DMA-LA	Approach to management	[Pay equity]	26
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category and by significant locations of operation	[Pay equity]	26
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]	32
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]	32
Community			
DMA-SO	Approach to management	[Impact on local community]	31
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]	18 22 31
Corruption			

DMA-SO	Approach to management	[Ethics and prevention of corruption]	13
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	

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

TRAKCJA PRKiI S.A.

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 ANNUAL FINANCIAL STATEMENTS

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

The 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. Income statement for the period from January 1, 2017 to December 31, 2017, which shows a net profit of PLN **32 040** thousand.
2. Statement of comprehensive income for the period from January 1, 2017 to December 31, 2017, which shows the positive total comprehensive income of PLN **31 977** thousand.
3. Balance sheet as at December 31, 2017, which shows the total assets and total equity and liabilities of PLN **1 109 175** thousand.
4. Statement of cash flows for the period from January 1, 2017 to December 31, 2017, which shows an increase in the total net cash flows by PLN **1 798** thousand.
5. Statement of changes in equity for the period from January 1, 2017 to December 31, 2017, which shows an increase in the equity by PLN **6 287** thousand.
6. Notes.

The 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

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Warsaw, March 28, 2018

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(Data in PLN thousand, unless indicated otherwise)

INCOME STATEMENT

	Note	1.01.2017 - 31.12.2017 *Audited*	1.01.2016 - 31.12.2016 *Audited*
Continued operations			
Sales revenue	12	858 281	826 198
Cost of goods sold	13	(815 586)	(787 275)
Gross profit (loss) on sales		**42 695**	**38 923**
Cost of sales, marketing and distribution		(2 317)	(2 132)
General and administrative costs		(22 382)	(25 275)
Other operating revenues	14	3 220	3 548
Other operating costs	15	(2 244)	(5 350)
Operating profit (loss)		**18 972**	**9 714**
Financial revenues	16	23 747	25 945
Financial costs	17	(6 978)	(5 929)
Gross profit (loss)		**35 741**	**29 730**
Income tax	18	(3 701)	(1 031)
Net profit (loss) from continued operations		**32 040**	**28 699**
Net profit (loss) from discontinued operations		-	-
Net profit for the period		**32 040**	**28 699**
Profit per share attributable to shareholders in the period (PLN per share)	20		
- basic		0,62	0,56
- diluted		0,62	0,56

(Data in PLN thousand, unless indicated otherwise)

STATEMENT OF COMPREHENSIVE INCOME

	Nota	1.01.2017 - 31.12.2017 *Audited*	1.01.2016 - 31.12.2016 *Audited*
Net profit for the period		**32 040**	**28 699**
Other comprehensive income:			
Other comprehensive income that will not be reclassified into profit or loss under certain conditions:	18.2	**(79)**	**759**
Profit from revaluation referred into revaluation reserve			(490)
Actuarial gains/(losses)		(79)	1 249
Other comprehensive income that will be reclassified to profit or loss:		**16**	**(9)**
Foreign exchange differences on translation of foreign operations		16	(9)
Total other comprehensive income		**(63)**	**750**
Total comprehensive income for the period		**31 977**	**29 449**

(Data in PLN thousand, unless indicated otherwise)

BALANCE SHEET

	Note	31.12.2017 *Audited*	31.12.2016 *Audited*
ASSETS			
Non-current assets		**664 541**	**657 078**
Tangible non-current assets	21	141 389	134 895
Intangible assets	23	52 961	54 276
Investment properties	22	17 174	17 174
Investments in subsidiaries	24	436 241	436 241
Other financial assets	26	5 507	4 734
Deferred tax assets	18.3	3 811	7 483
Accruals	27	7 458	2 275
Current assets		**444 634**	**356 980**
Inventory	28	53 105	30 400
Trade and other receivables	29	230 975	281 302
Income tax receivables		134	-
Other financial assets	26	10 318	5 836
Cash and cash equivalents	30	20 618	18 820
Accruals	27	7 749	3 981
Construction contracts and advances paid towards contracts being performed	32	118 673	13 579
Assets held for sale	31	3 062	3 062
TOTAL ASSETS		**1 109 175**	**1 014 058**
Equity and liabilities			
Equity	34	**631 598**	**625 311**
Share capital		41 120	41 120
Share premium account		309 984	309 984
Revaluation reserve		5 804	5 800
Other capital reserves		242 643	239 717
Retained earnings		32 040	28 699
Foreign exchange differences on translation of foreign operations		7	(9)
Total equity		**631 598**	**625 311**
Long-term liabilities		**51 178**	**80 736**
Interest-bearing loans and borrowings	36	44 508	54 759
Provisions	35	4 035	17 577
Liabilities due to employee benefits	38	2 635	8 400
Short-term liabilities		**426 399**	**308 011**
Interest-bearing loans and borrowings	36	19 737	16 249
Trade and other liabilities	39	252 084	245 053
Provisions	35	7 316	19 722
Liabilities due to employee benefits	38	8 099	7 200
Tax liabilities		-	2 095
Accruals		366	258
Construction contracts and advances received towards contracts being performed	32	138 797	17 434
TOTAL EQUITY AND LIABILITIES		**1 109 175**	**1 014 058**

(Data in PLN thousand, unless indicated otherwise)

STATEMENT OF CASH FLOWS

	Note	1.01.2017 - 31.12.2017 Audited	1.01.2016 - 31.12.2016 Audited
Cash flows from operating activities			
Gross profit from continued operations		**35 741**	**29 730**
Adjustments for:		**5 829**	**(123 823)**
Depreciation		13 808	12 197
FX differences		126	246
Net interest and dividends		(18 566)	(22 696)
Profit on investment activities		70	(121)
Change in receivables		50 326	(179 712)
Change in inventory		(22 704)	883
Change in liabilities, excluding loans and borrowings		2 867	73 287
Change in prepayments and accruals		(8 844)	4 298
Change in provisions		(25 947)	26 420
Change in construction contracts and advances towards contracts being performed		16 268	(37 444)
Income tax paid		(2 229)	(3 362)
Other		670	2 187
Foreign exchange differences on translation of foreign operations		(16)	(5)
Net cash flows from operating activities		**41 570**	**(94 093)**
Cash flows from investment activities			
Sale (purchase) of intangible assets and tangible non-current assets		(10 860)	(10 712)
- acquisition		(16 880)	(22 927)
- sale		6 020	12 215
Sale (acquisition) of shares and stocks in affiliates and subsidiaries	24	-	(21 660)
- acquisition		-	(21 660)
Financial assets		(7 459)	6 316
- granted or acquired		10 349	11 289
- repaid		(17 808)	(4 973)
Loans		2 000	(200)
- granted		3 000	3 500
- repaid		(1 000)	(3 700)
Dividend received		21 475	14 028
Interest received		244	-
Net cash flows from investment activities		**5 400**	**(12 228)**
Cash flows from financial activities			
Proceeds on account of taken borrowings and loans		-	21 500
Repayment of borrowings and loans		(7 025)	(4 304)
Interests and commissions paid		(3 634)	(3 129)
Payment of liabilities under financial lease agreements		(8 600)	(7 127)
Inflows (outflows) due to other financial liabilities		(213)	(348)
Dividends paid to shareholders		(25 700)	(17 476)
Net cash flows from financial activities		**(45 172)**	**(10 884)**
Total net cash flows		**1 798**	**(117 205)**
Net FX differences		-	-
Cash at start of period		**18 820**	**136 025**
Cash at end of period	30	**20 618**	**18 820**

(Data in PLN thousand, unless indicated otherwise)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium account	Revalua-tion reserve	Other reserve capitals		Foreign exchange differences on translation of foreign operations	Retained earnings	Total
				Actuarial gains/ (losses)	Results from previous years			
As at 1.01.2017 Audited	**41 120**	**309 984**	**5 800**	**470**	**239 247**	**(9)**	**28 699**	**625 311**
Net profit for the period	-	-	-	-	-	-	32 040	32 040
Other comprehensive income	-	-		(79)		16	-	(63)
Distribution of profit	-	-			2 999		(2 999)	-
Divided payment	-	-					(25 700)	(25 700)
Other changes	-	-	4		6		-	10
As at 31.12.2017 Audited	**41 120**	**309 984**	**5 804**	**391**	**242 252**	**7**	**32 040**	**631 598**
Audited	**41 120**	**309 984**	**6 295**	**(779)**	**221 546**	**-**	**35 161**	**613 327**
As at 1.01.2016 after adjustments	-	-	-	-	-	-	28 699	28 699
Net profit for the period	-	-	(490)	1 249	-	(9)	-	750
Other comprehensive income	-	-		-	17 685	-	(17 685)	-
Distribution of profit	-	-	-	-	-	-	(17 476)	(17 476)
Divided payment	-	-	(5)	-	16	-	-	11
As at 31.12.2016 Audited	**41 120**	**309 984**	**5 800**	**470**	**239 247**	**(9)**	**28 699**	**625 311**

NOTES

1. General information

These financial statements are for the financial year ended December 31, 2017 and include comparative information for the financial year ended December 31, 2016.

Trakcja PRKiI S.A. (hereinafter referred to as the "Company" or "Trakcja PRKiI") was established in its present form 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. Trakcja S.A. operates under the Articles of Association drawn up in the form of a notarial deed on 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 Extraordinary General Meeting on June 15, 2011.

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 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 Company's Extraordinary General Meeting 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 Company's registered office is located in Warsaw at ul. Złota 59, XVIII p.

The term of the Company is unspecified.

According to the Articles of Association, the Company renders specialist construction and assembly services within the scope of railway and tram lines electrification.

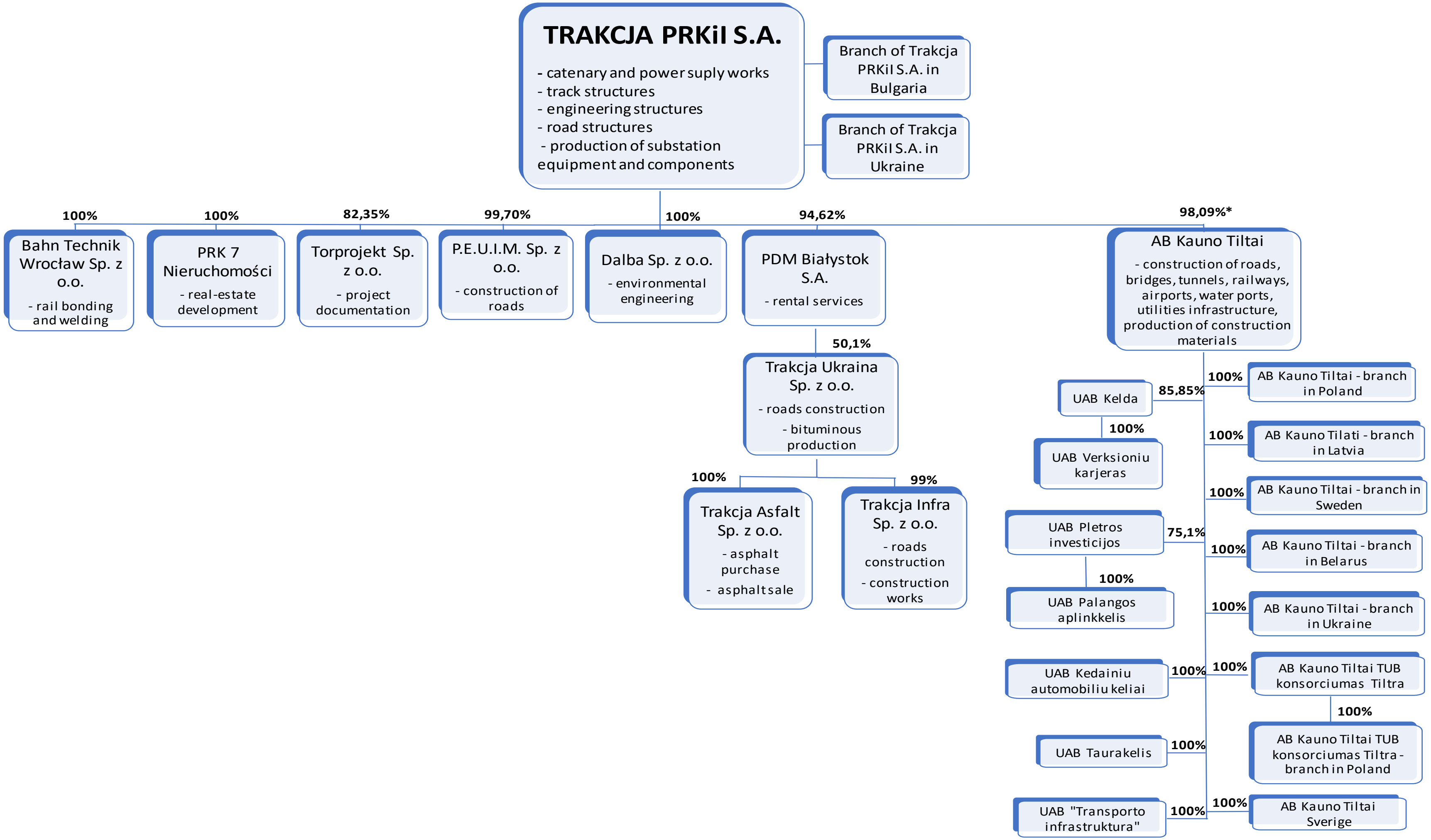
The Company specialises in the following types of activity:

- foundation and network works,

- installation of traction substations and section cabs,
- installation of high and low voltage overhead and cable lines,
- installation of local control and supply 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 the 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:

Bahn Technik Wrocław Sp. z o.o.

Trakcja PRKiI holds 100% of shares in Bahn Technik Wrocław Sp. z o.o. ("BTW"). On December 30, 2016 Trakcja acquired 50% of shares in BTW from Leonhard Weiss International GmbH with its registered office in Göppingen. Since then BTW has been fully controlled by the Company.

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 2015, BTW has also been equipped with a GOTTWALD crane and a DGS track stabilizer. BTW renders its services both in Poland and abroad.

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 has just completed a project consisting in the construction of terraced houses located at ul. Oliwska in Warsaw and commenced their sale.

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.

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 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.

Branch of Trakcja PRKiI S.A. in Bulgaria

On March 29, 2016 Trakcja PRKiI S.A. opened a branch in Bulgaria.

Branch of Trakcja PRKiI S.A. in Ukraine

On March 3, 2017 Trakcja PRKiI S.A. opened a branch in Ukraine.

Trakcja Ukraina Sp. z o.o.

On February 9, 2017 a subsidiary named ТРАКЦІЯ УКРАЇНА (Trakcja Ukraina Sp. z o.o.) was established, whose registered office is in Dnipro (Ukraine) and whose majority shareholder is PDM Białystok S.A. Trakcja Ukraina

Sp. z o.o. has two subsidiaries: Trakcja Infra Sp. z o.o. and Trakcja Asfalt Sp. z o.o. Due to fact that the Ukrainian companies have an insignificant impact on the Group's performance, their data is not disclosed by the Group.

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 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 Branch in Ukraine – a branch of AB Kauno Tiltai with its registered office in Kiev (Ukraine);
- 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).

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.

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 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. Due to fact that the Ukrainian companies have an insignificant impact on the Group's performance, their data is not disclosed by the Group. AB Kauno Tiltai opened a branch with its registered office in Kiev (Ukraine) on June 22, 2017.

3. Management Board

As at December 31, 2017 the 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.

On September 14, 2017 the Company' Supervisory Board passed a resolution appointing Mr. Maciej Sobczyk as the Vice-President of the Company's 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 Company's Management Board composition after the balance sheet date.

4. Supervisory Board

As at December 31, 2017 the 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 Supervisory Board's composition.

5. Approval of the annual financial statements for publication

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

6. 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. The actual performance may differ from the estimates made despite the fact that they are based on the best knowledge regarding the current conditions and operations performed by the Company.

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 Company'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.

6.1. 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 the relevant methods and assumptions, the Company follows professional judgement. The assumptions made for this purpose are presented in Note 44 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 Management Board classifies a lease as an operating lease or a finance lease based on the extent to which risks and benefits 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 8.2.4, Note 40 and Note 41.

Investment property

The Company's Management Board classifies properties as tangible non-current assets or investment properties depending on their intended use by the Company.

Control over related entities

The 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 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 full control over the subsidiary. Trakcja PRKiI S.A. has become the shareholder in PRK 7 Nieruchomości as a result of the merger between Trakcja S.A. and PRK 7 S.A. which held shares in 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 S.A. has become the shareholder in Torprojekt through the acquisition of shares therein.

Trakcja PRKiI holds 99.70% of shares in PEUiM Sp. z o.o. and has full control over the subsidiary. Trakcja PRKiI S.A. has become the shareholder in PEUiM through the acquisition of shares therein.

Trakcja PRKiI holds 100% of shares in Dalba Sp. z o.o. and has full control over the subsidiary. Trakcja PRKiI S.A. has become the shareholder in Dalba through the acquisition of shares therein.

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

Trakcja PRKiI holds 98.09% of shares in AB Kauno Tiltai and has full 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 which describes the Group's composition and structure.

Classification of joint contractual arrangements

The Company 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 legal form of the arrangement, as well as the terms thereof agreed by the parties. Until the acquisition of control over BTW, i.e. until December 30, 2016, the Company classified the shares in Bahn Technik Wrocław Sp. z o.o. as a joint venture in accordance with IFRS 11. Since the acquisition BTW has been fully consolidated.

6.2. 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 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 Company is obliged to grant guarantee for its services. Provisions for additional works depend on the segment in which the Company operates and are based on the Company'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 35 of the Notes.

Provisions for contractual penalties

The Company 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 Company's potential future liabilities depending on the conduct of negotiations.

Measurement of employee benefit liabilities

Any employee benefit liabilities for retirement allowances and jubilee bonuses are estimated on the basis of actuarial methods which take into account the amendments made to the remuneration regulations 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 38 of the Notes.

Deferred tax assets

The Company 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 Company's Management Board verifies the estimated recoverability of deferred tax assets on the basis of changes in the factors considered and also taking into account any new information and past experiences. The likelihood that deferred tax assets will be settled against future taxable profits is based on the Company's forecast. The Company recognises 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 carrying amount of the deferred tax assets as at December 31, 2017 is presented in Note 18.3 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. The Company verifies the adopted economic useful lives each year on the basis of 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. Detailed information on the carrying amount of the investment properties as at December 31, 2017 is provided in Note 22 of the Notes.

Impairment of financial assets

Financial assets are tested for impairment using any available and generally applicable methods and taking into account the Company's forecast future cash flows related to the assets concerned.

Approach relating to the investment in AB Kauno Tiltai

The Company recognises the total cost of acquisition of individual companies, namely AB Kauno Tiltai, Lithold AB and Silentio Investments Sp. z o.o., whose shares it acquired on April 19, 2011 under a single agreement that covered the entire transaction. The aforementioned agreement determines the total amount payable for all the companies acquired, and therefore specifies the total acquisition price for all the companies together and not for each of the companies separately. In the opinion of the Company, the division of the acquisition price paid is not feasible in practice. The Company tests the investment as a whole for impairment. The carrying amount of the investment in A Kauno as at December 31, 2017 is presented in Note 24 of the Notes.

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 8.8. For that purpose, the Company estimates the net realisable value of those inventories that lost their functional properties or are no longer useful. For more information please see Note 28.

Recoverability of trade 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. For more information please see Note 29.

Fair value and its measurement

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

Information on measurement techniques and input data used for measuring the fair value of individual assets and liabilities is disclosed in Note 22 and Note 44.

7. Basis for preparing the annual financial statements

The annual financial statements are prepared according to the historical cost principle, except for the investment properties measured at fair value.

The 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 annual financial statements are prepared on the assumption that the Company 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 Company as a going concern.

7.1. Statement of compliance

The annual financial statements are 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 in force as at December 31, 2017 and approved by the EU as at the preparation hereof are described in Note 9.

Any standards other than those in force as at December 31, 2017 and approved by the EU as at the preparation hereof are described in Note 9.

The IFRS include standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee ("IFRIC").

(Data in PLN thousand, unless indicated otherwise)

7.2. Measurement currency and currency of the financial statements

The Polish zloty is the Company's measurement currency and the reporting currency in these annual financial statements, whereas the Bulgarian lev (BGN) is the currency of the Trakcja PRKiI S.A. establishment in Bulgaria and the Ukrainian hryvnia (UAH) is the currency of the establishment in Ukraine.

8. Significant accounting principles

8.1. Conversion of items in foreign currency

The Polish zloty is the Company's functional currency, whereas the Bulgarian lev (BGN) is the functional currency of the Trakcja PRKiI S.A. establishment in Bulgaria and the Ukrainian hryvnia (UAH) is the functional currency of the establishment in Ukraine.

Transactions expressed in foreign currencies are converted by the Company 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	4,424
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.

8.2. Tangible non-current assets

8.2.1. 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.

(Data in PLN thousand, unless indicated otherwise)

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. The expected useful life of each asset is determined when the asset concerned is accepted for use. 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 the 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 Company is as follows:

- hardware	3 years or a contractual term,
- 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.

8.2.2. 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.

8.2.3. Right of perpetual usufruct of land

The Company holds the right of perpetual usufruct of land. The Company classifies the right of perpetual usufruct of land according to the method of its 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.

8.2.4. Leases

Finance leases that transfer all the risks and all the benefits related to the item leased to the Company 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.

8.2.5. Investments in related entities and in jointly controlled entities

Shares in related entities and in jointly controlled entities are recognised at cost less any impairment losses. Pursuant to IAS 36 Impairment of Assets, impairment losses are recognised by way of comparing the asset’s carrying amount with the higher of the asset’s fair value less any costs of disposal or the asset's value in use.

8.2.6. Impairment of non-financial assets

As at the balance sheet date, the Company 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 Company 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 generates no cash flows that are mostly independent of those generated by other 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 Company decides on whether any circumstances exist which indicate that impairment losses recognised in previous periods on the asset concerned are still required or whether they should be decreased. If appropriate circumstances exist, the Company estimates the recoverable value of the asset concerned. 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.

8.2.7. 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 when incurred.

8.3. 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 Company 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 held for sale are disclosed in the balance sheet separately from other assets.

8.4. Investment properties

The Company'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 Company 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 Company assesses whether there are any indications that 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 Company's asset is transferred to the investment properties, the difference between its fair value and its carrying amount is recognised in other comprehensive income, 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.

8.5. 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.

8.5.1. 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 Company'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.

8.5.2. 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 Company at which the goodwill is monitored for internal management purposes; and
- not be larger than a segment within the meaning of the segment provided in IAS 14 Segment Reporting.

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. 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.

8.6. 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,
- Available-for-sale financial assets.

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 Company intends and is able to hold until such dates, except for any loans or own receivables of the Company. 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 Company 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 Company 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 derecognised when the Company 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. A financial asset is recognised in the balance sheet when the Company is a party to an agreement (contract) relating to such a financial asset.

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 Company assesses whether there is any objective indication that a financial asset or a group of financial assets is impaired. If such indications exist, the Company 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 Company 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 Company's financial liabilities measured at fair value through profit or loss include primarily derivatives with a negative fair value (the Company does not apply any hedge accounting). 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 operating revenues or costs. 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 Company's trade liabilities and incurred loans and borrowings, leases, factoring and bonds. Liabilities classified to this category are measured at amortised cost using an effective interest rate.

8.7. Financial derivatives

Derivatives used by the Company for the purpose of currency hedging mainly include currency forward 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 currency forward contracts is determined on the basis of current forward rates applicable to contracts with similar maturity.

8.8. 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 entity, 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.

8.9. 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 fair value of reliable security. 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.

8.10. 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.

8.11. Equity

Equity is recognised in the accounting records by type and according to the rules set forth in the provisions of law and the Company's Articles of Association.

Share capital is recognised in its nominal value, as specified in the 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 Company’s equity.

Revaluation reserve is created in accordance with the provisions of the commercial law, according to which contributions to a supplementary capital 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,
- Actuarial gains (losses).

Retained earnings include a profit or loss for the reporting period concerned.

8.12. 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 and debt securities 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.

8.13. 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.

8.14. Provisions

Provisions are recognised, if the Company 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 Company expects that the costs covered by a 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 it 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.

8.14.1. Retirement and pension benefits and jubilee bonuses

In accordance with the corporate remuneration systems, the Company's employees 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 company 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 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. 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.

8.15. Prepayments

Prepayments include in particular:

- rents paid in advance,
- insurance,
- subscriptions,
- maintenance repairs,
- external services to be rendered in the following periods, but paid for in advance.

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").

8.16. Revenues and costs

Revenues are recognised in such amounts as it is likely that the Company receives economic benefits related to certain transactions and when their amounts can be measured reliably.

Revenues are recognised exclusive of the value added tax (VAT) and rebates. Revenues are recognised in keeping with the criteria provided below.

Operating revenues include an effect of the measurement and exercise of currency transactions that hedge long-term construction contracts made in foreign currency.

8.16.1. 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.

8.16.2. Construction contract

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 the revenues received from the contracting entity. Subsequently they are recognised in the costs of the construction services in progress.

The Company performs certain contracts under consortium agreements in keeping with which it acts as the consortium leader. The Company recognises no revenues or costs attributable to consortium members in accordance with IFRS 11.

At the same time the Company recognises only such assets and liabilities in the balance sheet as are attributable to the Company'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.

8.16.3. Interest

Revenues from interest are recognised as accrued (using the effective interest rate method) on the net carrying amount of a given financial asset.

8.16.4. Dividends

Dividends are recognised when the shareholders' rights to receive them are established.

8.17. Taxes

8.17.1. Current tax

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.

8.17.2. 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 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 Company offsets the deferred income tax assets and the provisions for deferred income tax if, and only if, it has obtained an enforceable legal title to offset receivables against provisions for current income tax and if the deferred income tax refers to the same tax payer and the same tax authority.

8.18. 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.

8.19. Earnings per share

Earnings per share for each period are calculated by dividing a net profit 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 or loss 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. Standards and amendments to standards adopted by the IASB, but not yet approved by the EU

In these separate financial statements the Company 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 Company'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 Company as at the balance sheet date.

Hedge accounting for a portfolio of financial assets and liabilities, the 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 Company'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 Company decided not to apply the aforementioned new standards and amendments to the existing standards earlier. The Company 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 Company 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.

10. 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 published by the International Accounting Standards Board (IASB) and approved by the EU are applied for the first time to the financial statements 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 Company'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 Company 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 Company analysed the effect of IFRS 9 on the accounting principles applied on its operations or its financial performance. In the Company's opinion, the introduction of IFRS 9 will not have any effect on the consolidated financial statements or the consolidated equity of the Company, except for the following:

The Company estimated the effect on the financial statement as at December 31, 2017 of the expected losses on short-term receivables. Thus, the Company estimated that as at January 1, 2018 the impairment losses (net of the deferred tax) would increase the Company's equity by PLN 266 thousand as a result of an increase in the carrying amount of trade receivables.

The Company estimated the effect on the financial statements as at December 31, 2017 of the recognition of the discounted deposits and amounts held. Thus, the Company 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.

- **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 Company 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 Company 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 Company 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 Company will apply IFRS 15 using the modified retrospective method.

From January 1, 2018 onwards, the Company 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.

In the period covered by the financial statements for 2017, no changes were made to the accounting principles and the rules for preparing financial statements in comparison to those disclosed in the Company's financial statements for 2016 published on March 21, 2017.

11. Selected financial data translated into EUR

The average PLN/EUR exchange rates in the period covered by the 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 balance sheet translated into EUR:

	31.12.2017		31.12.2016	
	kPLN	kEUR	kPLN	kEUR
Non-current assets	664 541	159 328	657 078	148 525
Current assets	444 634	106 604	356 980	80 692
TOTAL ASSETS	**1 109 175**	**265 932**	**1 014 058**	**229 217**
Equity	631 598	151 430	625 311	141 345
Long-term liabilities	51 178	12 270	80 736	18 249
Short-term liabilities	426 399	102 232	308 011	69 623
TOTAL EQUITY AND LIABILITIES	**1 109 175**	**265 932**	**1 014 058**	**229 217**

The 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 income statement translated into EUR:

	Year ended 31.12.2017		Year ended 31.12.2016	
	kPLN	kEUR	kPLN	kEUR
Sales revenue	858 281	202 201	826 198	188 815
Cost of goods sold	(815 586)	(192 142)	(787 275)	(179 921)
Gross profit (loss) on sales	**42 695**	**10 059**	**38 923**	**8 894**
Operating profit (loss)	18 972	4 470	9 714	2 220
Gross profit (loss)	**35 741**	**8 420**	**29 730**	**6 794**
Net profit (loss) from continued operations	32 040	7 548	28 699	6 559
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	**32 040**	**7 548**	**28 699**	**6 559**

The 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 statement of cash flows translated into EUR:

	Year ended 31.12.2017		Year ended 31.12.2016	
	kPLN	kEUR	kPLN	kEUR
Net cash flows from operating activities	41 570	9 793	(94 093)	(21 504)
Net cash flows from investment activities	5 400	1 272	(12 228)	(2 794)
Net cash flows from financial activities	(45 172)	(10 642)	(10 884)	(2 487)
Total net cash flows	**1 798**	**423**	**(117 205)**	**(26 785)**

The above data of the 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	18 820	4 254	136 025	31 920
Cash at end of period	**20 618**	**4 943**	**18 820**	**4 254**

The exchange rates adopted for the purpose of converting the above data of the 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.

(Data in PLN thousand, unless indicated otherwise)

12. Sales revenues

Sales revenue	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Revenues from sale of construction services	834 415	811 249
Revenues from sale of goods and materials	7 624	2 686
Revenues from sale of other products and services	16 242	12 263
Total	**858 281**	**826 198**

Sales revenue	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Contracts	834 415	811 249
Other sales	23 866	14 949
Total	**858 281**	**826 198**

Cost of goods sold	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Contracts	788 474	759 785
Other sales	27 112	27 490
Total	**815 586**	**787 275**

Gross profit (loss) on sales	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Contracts	45 941	51 463
Other sales	(3 246)	(12 540)
Total	**42 695**	**38 923**

Trakcja PRKiI generates all its revenues in Poland. Revenues from PKP PLK constitute approximately 72.7% of the Company's sales revenues.

The Company’s revenues are recognised in only one operating segment which therefore is the reporting segment.

(Data in PLN thousand, unless indicated otherwise)

13. Operating costs

Costs by type	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Depreciation	13 808	12 197
Consumption of materials and energy	341 793	267 975
External services	398 700	397 409
Taxes and charges	3 969	3 832
Payroll	80 621	85 032
Social security and other benefits	21 313	19 565
Other types of costs	14 441	18 066
Total costs by type	**874 645**	**804 076**
Change in inventories, products and prepayments	(24 667)	25 383
Cost of manufacture of products for the entity's own needs	(16 861)	(17 030)
Cost of sales, marketing and distribution (negative value)	(2 317)	(2 132)
General and administrative costs (negative value)	(22 382)	(25 275)
Manufacturing cost of products sold	**808 418**	**785 022**
Value of materials and goods sold	**7 168**	**2 253**
Cost of goods sold	**815 586**	**787 275**

Costs of remunerations and other employees benefits:	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Costs of payroll and employment termination benefits	79 710	79 939
Social security costs	16 904	14 961
Provisions for retirement pay and disability benefits	(1 290)	(331)
Provision for jubilee awards	(2 302)	1 254
Provision for unused leaves	994	1 982
Provision for bonuses	3 511	1 288
Provision for non-competition and compensation	-	900
Employee benefits under Employee Pension Program	623	615
Other employee benefits	3 784	3 989
Total	**101 934**	**104 597**

The 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 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-month experience in working at the Company.

(Data in PLN thousand, unless indicated otherwise)

Depreciation and amortization of fixed assets and intangible assets and impairment losses are recognised in the income statement:	**Year ended**	
	31.12.2017 Audited	**31.12.2016 Audited**
Items recognised in cost of goods sold		
Depreciation of fixed assets	11 826	10 467
Depreciation of intangible assets	909	741
Total	**12 735**	**11 208**
Items recognised in cost of sales, marketing and distribution		
Depreciation of fixed assets	1	4
Depreciation of intangible assets	-	-
Total	**1**	**4**
Items recognised in general and administrative costs		
Depreciation of fixed assets	419	346
Depreciation of intangible assets	653	639
Total	**1 072**	**985**
Depreciation of fixed assets	12 246	10 817
Depreciation of intangible assets	1 562	1 380
Total	**13 808**	**12 197**

14. Other operating revenues

	Year ended	
	31.12.2017 Audited	**31.12.2016 Audited**
Reversal of provision including:	1 831	650
- for restructuring	1 831	-
- for litigation	-	650
Received penalties and fines	848	384
License fees, patents	-	280
Overpaid social security contributions	-	536
Reimbursed costs from tenders in Denmark	-	571
Redeemed liabilities	166	164
Profit on sale of non-financial non-current assets	-	221
Valuation of investment properties	-	177
Other	375	565
Total	**3 220**	**3 548**

(Data in PLN thousand, unless indicated otherwise)

15. Other operating costs

	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Restructuring costs	112	3 905
Damage of tangible non-current assets	523	-
Paid costs of litigation	511	243
Donations made	38	31
Inventory shortage	284	-
Value of liquidated non-financial assets	79	268
Write-off of receivables	57	52
Reorganization costs of the production division	58	131
Paid fines, compensation	133	328
Value of liquidated inventories	3	-
Other	446	392
Total	**2 244**	**5 350**

16. Financial revenue

	Year ended 31.12.2017 Audited	Year ended 31.12.2016 Audited
Financial revenues from interest, including:	2 145	743
- bank interest	145	402
- loan interest	42	194
- receivables	951	66
- release of provisions for liabilities	914	-
- other	93	81
Income from received dividends	21 601	25 143
Financial revenues from participation in guarantee costs	-	53
Other	1	6
Total	**23 747**	**25 945**

(Data in PLN thousand, unless indicated otherwise)

17. Financial costs

	Year ended	
	31.12.2017 Audited	**31.12.2016 Audited**
Financial costs on account of interest, including:	3 661	4 080
- interest on loans and borrowings	1 412	1 173
- on liabilities	352	133
- on leasing	1 551	1 378
- on liability from employee benefits	172	225
- on factoring	114	49
- from established reserves for liabilities	-	989
- other	60	133
Foreign exchange loss	481	715
Costs of factoring services	213	199
Interests receivables write off	912	-
Financial commission costs	1 612	915
Guarantee fee	90	-
Other financial costs	9	20
Total	**6 978**	**5 929**

(Data in PLN thousand, unless indicated otherwise)

18. Income tax

18.1. Current income tax

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Gross profit	**35 741**	**29 730**
Differences between gross profit (loss) and income tax base (by title)		
- temporary differences, including:	**(50 927)**	**5 601**
depreciation and amortisation	(647)	(863)
revaluation write-offs	(1 868)	(521)
change in provisions	(32 679)	28 795
valuation of investment properties at fair value	-	432
construction contracts valuation	(78 411)	(41 700)
valuation of construction contracts	(2 084)	721
accrued interest	5	11
provision for losses on contracts	963	111
remuneration unpaid	(184)	447
non-tax costs relating to long-term contracts	54 311	104 347
non-tax revenue relating to long-term contracts	10 716	(86 237)
financial lease agreements	(2 800)	1 774
other	1 752	(1 715)
- permanent differences, including:	**(16 807)**	**(24 289)**
received dividends	(21 601)	(25 143)
contributions to PFRON (National Disabled Persons Rehabilitation Fund)	1 098	849
donations made	38	16
budget interest	306	13
insurance and membership fees	328	443
VAT difference	27	19
cost of disputed contracts	-	(1 000)
revaluation write-offs	2 818	3 249
other	179	(2 735)
Taxable income	**(31 992)**	**11 042**
Deductions from income	**-**	**(15)**
- tax loss from previous years	-	-
- donations	-	(15)
Income tax base	**-**	**11 027**
Income tax at 19% rate	**-**	**2 095**
Current income tax recognised (shown) in tax declaration for the period, including:	**-**	**2 095**
- recognised in income statement	-	2 095

Income tax in the income statement:

(Data in PLN thousand, unless indicated otherwise)

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Current income tax:	**-**	**2 095**
- current income tax charge	-	2 095
Deferred tax:	**3 702**	**(1 064)**
- related to increase and decrease in temporary differences	3 702	(1 064)
- revaluation of deferred tax assets	-	-
Total	**3 702**	**1 031**

In the income statement for the year ended December 31, 2017 and in the income statement for the year ended December 31, 2016 the Company did not disclose any income tax on the discontinued operations.

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 an 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	**35 741**	**29 730**
Income tax at applicable income tax rate of 19%	6 791	5 649
Tax effect of the approach:		
Tax costs not constituting accounting costs	(1 709)	(1 578)
Non-tax revenues constituting accounting revenues	(6 628)	(5 027)
Non-tax costs constituting accounting costs	5 247	1 987
Income tax at effective tax rate of 10% (2015: 3%)	**3 701**	**1 031**
	10%	3%

18.2. Income tax recognised in other comprehensive income

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Revaluation gains attributable to revaluation reserve		
Gross amount	-	(605)
Tax	-	115
Net amount	**-**	**(490)**
Actuarial gains (losses)		
Gross amount	(98)	1 542
Tax	19	(293)
Net amount	**(79)**	**1 249**

18.3. Deferred income tax

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:

	2018	2019	2020	2021	2022	**Total**
Assets due to deferred income tax on tax loss	1 200	1 200	2 986	586	-	**5 972**

(Data in PLN thousand, unless indicated otherwise)

Deferred tax assets:

Title of temporary differences:	1.01.2016 Modified	Increase / Decrease	31.12.2016 Audited	Increase / Decrease	31.12.2017 Audited
Provision for bonuses, for non-competition and compensation	519	(103)	416	279	695
Provision for the audit	19	9	28	4	32
Provision for correction works	1 084	4 725	5 809	(4 462)	1 347
Provision for losses on contracts	69	21	90	183	273
Provisions for retirement and pensions	779	(40)	739	(436)	303
Provision for jubilee awards	1 320	(105)	1 215	(716)	499
Provision for unused leaves	959	161	1 120	118	1 238
Valuation allowance for trade receivables	536	-	536	(536)	-
Valuation allowance for other current assets	128	(99)	29	(5)	24
Unrealized foreign exchange losses	4	(3)	1	1	2
Accrued interest on liabilities	83	184	267	(261)	6
Interest on receivable write-offs	49	-	49	186	235
Non-tax costs related to ongoing long-term contracts	2 274	19 826	22 100	10 319	32 419
Surpus of invoiced revenues over actual revenues - valuation of long-term contracts	9 379	(6 857)	2 522	(1 851)	671
The positive difference between the balance sheet depreciation and the tax depreciation	78	7	85	(11)	74
Tax loss	-	-	-	5 972	5 972
Unpaid wages and unpaid social security contributions	197	85	282	(35)	247
Provision for costs	244	824	1 068	(996)	72
Others	1 993	(392)	1 601	(1 279)	322
Total deferred tax asset, including	**19 715**	**18 240**	**37 955**	**6 476**	**44 431**
influence on net profit	19 532	18 423	37 955	6 568	44 523
influence on equity	183	(183)	-	(92)	(92)

(Data in PLN thousand, unless indicated otherwise)

Provision for deferred tax:

Title of temporary differences:	1.01.2016 Modified	Increase / Decrease	31.12.2016 Audited	Increase / Decrease	31.12.2017 Audited
Surplus of actual revenues over invoiced revenues - valuation of long-term contracts	1 472	1 066	2 538	13 047	15 585
Provisions for retirement and pensions	-	110	110	(110)	-
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 depreciation	4 735	171	4 906	112	5 018
Unrealized foreign exchange profits	5	(5)	-	-	-
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	507	-	507	-	507
Investment property fair value adjustment	2 306	(82)	2 224	-	2 224
Financial lease agreements	1 551	(337)	1 214	532	1 746
Other	1 721	(1)	1 720	(1 521)	199
Total deferred tax liability, including	**13 128**	**17 343**	**30 472**	**10 149**	**40 620**
influence on net profit	10 510	17 359	27 869	10 270	38 139
influence on equity	2 618	(15)	2 603	(122)	2 481

	31.12.2017 Audited	31.12.2016 Audited
Deferred tax asset	44 431	37 955
Provisions for deferred tax	40 620	30 472
Netting deferred tax assets and liabilities	(40 620)	(30 472)
Deferred tax asset	**3 811**	**7 484**
Deferred tax liability	**-**	**-**

(Data in PLN thousand, unless indicated otherwise)

19. Discontinued operations

In 2017 and 2016 the Company did not discontinue any of its operations.

20. Earnings per share

	Year ended	
	31.12.2017 Audited	**31.12.2016 Audited**
Net profit (loss) from continued operations	32 040	28 699
Net profit (loss) for financial year	32 040	28 699
Net profit applied to calculate diluted earnings per share	32 040	28 699
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

	Year ended	
	31.12.2017	**31.12.2016**
Profit (loss) per 1 share (in PLN/share):	**Audited**	**Audited**
- basic	0,62	0,56
- diluted	0,62	0,56

	Year ended	
	31.12.2017	**31.12.2016**
Profit (loss) from continued operations per 1 share (in PLN/share):	**Audited**	**Audited**
- basic	0,62	0,56
- diluted	0,62	0,56

21. Tangible non-current assets

The structure of non-current assets is as follows:

	31.12.2017 Audited	**31.12.2016 Audited**
Fixed assets, including:	125 452	122 605
- land (including right of perpetual usufruct)	16 230	16 404
- buildings, premises, civil and water engineering structures	4 768	3 761
- technical equipment and machines	48 900	50 943
- vehicles	52 888	49 676
- other fixed assets	2 666	1 821
Fixed assets under construction	15 937	12 290
Total	**141 389**	**134 895**

The ownership of non-current assets is as follows:

(Data in PLN thousand, unless indicated otherwise)

	31.12.2017 Audited	31.12.2016 Audited
Proprietary	95 665	92 238
Used on the basis of lease, rental or other agreement, including leasing agreement	45 724	42 657
Total	**141 389**	**134 895**

Changes in non-current assets:

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	**20 165**	**50 943**	**49 676**	**1 822**	**12 290**	**134 895**
Increases - purchase	159	3 459	8 680	1 642	10 929	24 869
Movements between groups	1 278	-	-	-	(1 278)	-
Sale	-	(1)	-	-	(5 107)	(5 108)
Liquidation	-	(68)	(52)	(4)	-	(123)
Depreciation	(604)	(5 433)	(5 416)	(794)	-	(12 246)
Other decreases	-	-	-	-	(897)	(897)
Net book value at the end of the year	**20 998**	**48 900**	**52 888**	**2 666**	**15 937**	**141 389**

As at 31.12.2017 Audited						
(Gross) cost or value from valuation	28 539	104 681	108 365	10 619	15 937	268 141
Depreciation and imparment write-offs	(7 541)	(55 781)	(55 477)	(7 953)	-	(126 752)
Net book value	**20 998**	**48 900**	**52 888**	**2 666**	**15 937**	**141 389**

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	**20 603**	**35 131**	**50 201**	**1 735**	**9 738**	**117 408**
Increases - purchase	143	16 726	5 137	643	17 755	40 403
Movements between groups	-	3 571	-	-	(3 571)	-
Sale	-	(47)	(15)	-	(11 632)	(11 694)
Liquidation	-	(2)	(405)	1	-	(406)
Depreciation	(581)	(4 437)	(5 242)	(557)	-	(10 816)
Net book value at the end of the year	**20 165**	**50 943**	**49 676**	**1 822**	**12 290**	**134 895**

(Data in PLN thousand, unless indicated otherwise)

As at 31.12.2016						
Audited						
(Gross) cost or value from valuation	29 081	101 635	100 888	9 047	12 290	252 941
Depreciation and imparment write-offs	(8 916)	(50 692)	(51 212)	(7 226)	-	(118 046)
Net book value	**20 165**	**50 943**	**49 676**	**1 822**	**12 290**	**134 895**

The Company holds the right of perpetual usufruct of land classified to the “Land, Buildings and Structures” category, whose value is PLN 16 230 thousand (PLN 16 405 thousand in the comparable period of 2016).

The Company 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**
Initial value	-	27 960	26 827	133	-	54 920
Accumulated depreciation	-	3 874	5 306	15	-	9 195
Net book value	**-**	**24 086**	**21 521**	**118**	**-**	**45 725**

As at 31.12.2016 Audited	**Land, buildings and structures**	**Machines and equipment**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Total**
Initial value	-	29 307	20 367	-	-	49 674
Accumulated depreciation	-	3 266	3 751	-	-	7 017
Net book value	**-**	**26 041**	**16 616**	**-**	**-**	**42 657**

Information on collateral established on tangible non-current assets is provided in Note 50.

22. Investment properties

	31.12.2017 Audited	**31.12.2016 Audited**
As at start of period (by type groups) - net value:	**17 174**	**17 602**
- land	13 739	13 532
- buildings, premises, civil and water engineering structures	3 435	4 070
Increases:	**-**	**399**
- land	-	399
- revaluation	-	399
Decreases:	**-**	**(827)**
- land	-	(192)
- revaluation	-	(192)
- buildings, premises, civil and water engineering structures	-	(635)
- revaluation	-	(635)
As at end of period (by type groups) - net value:	**17 174**	**17 174**
- land	13 739	13 739
- buildings, premises, civil and water engineering structures	3 435	3 435

The Company recognises investment properties at fair value. Fair value of the Company’s investment properties as at December 31, 2017 and December 31, 2016 was estimated based on the valuation carried out 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 Company’s assets. The Company also verifies the received opinions on fair value by analysing 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 Company’s buildings classified as investment properties are measured applying the cost method or the income 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. The income-based approach consists in the determination of the property's value, assuming that its buyer will pay for it a price that depends on the income expected from the property and that the maximum amount paid by the buyer will not exceed the price for which the buyer could buy any other property with the same rate of return and the same level of risk. In keeping with the Generally Accepted National Measurement Principles, the income-based approach is applied in order to establish the value of properties that generate income or create opportunities for generation of income, assuming that income is the key factor that affects the value of such properties. Any proceeds from leases and other rights to a given property and also any other non-rent proceeds generated from the property constitute the basis for calculating income from the property concerned. Other non-rent proceeds may include, in particular, income from advertising boards, cellular phone antennae, ATMs, car parks, etc. located at the property.

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.

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 - buildings	Income approach	Capitalization rate (9,5%)	higher capitalization rate will decrease the fair value of real estate
		Operating expenses - 34 526,73 PLN	an increase in operating expenses will adversely affect the fair value of the real estate
		vacancies and rent arrears loss rate (10%)	higher vacancies and rent arrears loss rate will adversely affect the fair value of the 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

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 revaluation carried out as at December 31, 2017 did not result in any changes being made to the value of the investment properties (2016: a decrease by PLN 428 thousand). In the period from the preceding revaluation, which was carried out as at December 31, 2016, no changes significant enough occurred which could justify the revaluation of properties.

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:	**17 174**	-	-	17 174
Office property	17 174			17 174
- land	13 739			13 739
- buildings	3 435			3 435

	31.12.2016 Audited	Level 1	Level 2	Level 3
Investment property:	**17 174**	-	-	17 174
Office property	17 174			17 174
- land	13 739			13 739
- buildings	3 435			3 435

(Data in PLN thousand, unless indicated otherwise)

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.

No property was reallocated between levels 1, 2 and 3 during the financial year.

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	249	183
Direct operating expenses from investment property that during the period generated rental income	(267)	(274)

No collateral has been established on the investment properties.

23. Intangible assets

Structure of the intangible assets:

	31.12.2017 Audited	**31.12.2016 Audited**
Research and development costs	1 947	2 818
Goodwill	48 732	48 732
Acquired concessions, patents, licences and similar items of value, including	1 805	2 045
- software	1 496	2 045
Other intangible assets	0	348
Intangible assets under construction	477	333
Total	**52 961**	**54 276**

Ownership structure of the intangible assets:

	31.12.2017 Audited	**31.12.2016 Audited**
Proprietary	52 961	54 276
Used on the basis of lease, rental or other agreement, including leasing agreement	-	-
Total	**52 961**	**54 276**

(Data in PLN thousand, unless indicated otherwise)

Changes in intangible assets:

Year ended 31.12.2017 Audited	Research and development expenses	Goodwill	Software licences	Other licenses, concessions, patents	Intangible assets under construction	Total
Net book value at the beginning of the year	**2 818**	**48 732**	**2 045**	**348**	**333**	**54 276**
Increases	-	-	115	-	144	259
Liquidation	-	-	(12)	-	-	(12)
Amortisation	(871)	-	(652)	(39)	-	(1 562)
Net book value at the end of the year	**1 947**	**48 732**	**1 496**	**309**	**477**	**52 961**
As at 31.12.2017 Audited						
(Gross) cost or value from valuation	6 559	48 732	6 613	390	477	62 771
Depreciation and accumulated imparment losses	(4 612)	-	(5 117)	(81)	-	(9 810)
Net book value	**1 947**	**48 732**	**1 496**	**309**	**477**	**52 961**

Year ended 31.12.2016 Audited	Research and development expenses	Goodwill	Software licences	Other licenses, concessions, patents	Intangible assets under construction	Total
Net book value at the beginning of the year	**2 566**	**48 732**	**2 738**	**387**	**1 144**	**55 567**
Increases	53	-	53	-	100	206
Movements	911	-	-	-	(911)	-
Liquidation	-	-	(117)	-	-	(117)
Amortisation	(712)	-	(630)	(39)	-	(1 380)
Net book value at the end of the year	**2 818**	**48 732**	**2 045**	**348**	**333**	**54 276**
As at 31.12.2016 Audited						
(Gross) cost or value from valuation	6 559	48 732	6 509	390	333	62 522
Depreciation and imparment write-offs	(3 741)	-	(4 465)	(42)	-	(8 247)
Net book value	**2 818**	**48 732**	**2 045**	**348**	**333**	**54 276**

In 2017 and 2016 the Company did not incur any significant costs that were not capitalised as research and development expenses in the tangible assets, except for the allocations from the intangible assets under construction in 2016.

Goodwill and tests for impairment

As at the balance sheet date the Company's goodwill was PLN 48 732 thousand (December 31, 2016: PLN 48 732 thousand) and was recognised in intangible assets. Goodwill was created as a result of the acquisition of and merger with PRK-7 S.A. in 2009 and PRKiI S.A. in 2013, and the acquisition of shares in PRK 7 Nieruchomości.

	31.12.2017 Audited	31.12.2016 Audited
Goodwill from acquisition and merger with PRKiI S.A.	2 051	2 051
Goodwill from acquisition and merger with PRK7 S.A.	46 681	46 681
Total	**48 732**	**48 732**

(Data in PLN thousand, unless indicated otherwise)

Goodwill resulting from the merger with PRK-7 S.A. and recognised in intangible assets (PLN 46 681 thousand) and goodwill resulting from the merger with PRKiI S.A. and recognised in intangible assets (PLN 2 051 thousand) were allocated to the cash-generating unit ("CGU") that consisted of the following companies: Trakcja PRKiI, Torprojekt Sp. z o.o. and Bahn Technik Wrocław Sp. z o.o. The Company's goodwill allocated to the aforementioned CGU was tested for impairment as at the balance sheet date and the tests performed demonstrated that there was no basis for recognising any impairment losses. Assumptions adopted for determining the recoverable value of the cash-generating unit:

- A growth rate in the residual period – 2% (31.12.2016: 2%);
- An EBITDA margin between 3.8% and 5.7% (31.12.2016: Between 2.9% and 4.4%);
- A discount rate after tax – 10.1% (31.12.2016: 10.2%).

The recoverable value of the cash-generating unit was calculated using 5-year cash flow forecasts. The Management Board determined 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 which reflects specific risks other than those included in the cash flow forecasts.

Sensitivity analysis of the recoverable value to the changes in individual factors used in the test for impairment is as follows:

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 2,5%	15 865	(15 865)
WACC	+/- 0,25%	(14 853)	15 675

The Company 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.

(Data in PLN thousand, unless indicated otherwise)

24. Investments in related entities

As at 31.12.2017

Company name	Location	Business object	Character of relation/consolidation method	Date of taking control	Value of shares/stocks at acquisition price	Revaluation adjustments	Carrying value of shares/ stocks	Percentage of the company share capital held	Share in total no. of votes at GM
PRK 7 Nieruchomości Sp. z o.o.	Warsaw	real estate development activities	subsidiary / full method	01.09.2007	17 169	-	17 169	100,00%	100,00%
Torprojekt sp. z o.o.	Warsaw	designing activities	subsidiary / full method	04.11.2010	1 400	-	1 400	82,35%	82,35%
AB Kauno Tiltai	Kaunas	construction and installation activities	subsidiary / full method	19.04.2011	364 109	-	364 109	96,84%	96,84%
PEUiM Sp. z o. o.	Białystok	construction and installation activities	subsidiary / full method	19.04.2011	29 466	-	29 466	99,70%	99,70%
Dalba Sp. z o.o.	Białystok	construction and installation activities	subsidiary / full method	19.04.2011	385	-	385	100,00%	100,00%
PDM Białystok S.A.	Białystok	construction and installation activities	subsidiary / full method	19.04.2011	204	-	204	94,62%	94,62%
Bahn Technik Wrocław Sp. z o. o.	Wrocław	construction and installation activities	subsidiary / full method	30.12.2016	23 508	-	23 508	100,00%	100,00%
Total					**436 241**	-	**436 241**		

(Data in PLN thousand, unless indicated otherwise)

As at 31.12.2016

Company name	Location	Business object	Character of relation/consolidation method	Date of taking control	Value of shares/stocks at acquisition price	Revaluation adjustments	Carrying value of shares/ stocks	Percentage of the company share capital held	Share in total no. of votes at GM
PRK 7 Nieruchomości Sp. z o.o.	Warsaw	real estate development activities	subsidiary / full method	01.09.2007	17 169	-	17 169	100,00%	100,00%
Torprojekt sp. z o.o.	Warsaw	designing activities	subsidiary / full method	04.11.2010	1 400	-	1 400	82,35%	82,35%
AB Kauno Tiltai	Kaunas	construction and installation activities	subsidiary / full method	19.04.2011	364 109	-	364 109	96,84%	96,84%
PEUiM Sp. z o. o.	Białystok	construction and installation activities	subsidiary / full method	19.04.2011	29 466	-	29 466	99,70%	99,70%
Dalba Sp. z o.o.	Białystok	construction and installation activities	subsidiary / full method	19.04.2011	385	-	385	100,00%	100,00%
PDM Białystok S.A.	Białystok	construction and installation activities	subsidiary / full method	19.04.2011	204	-	204	94,62%	94,62%
Bahn Technik Wrocław Sp. z o. o.	Wrocław	construction and installation activities	subsidiary / full method	30.12.2016	23 508	-	23 508	100,00%	100,00%
Total					**436 241**	-	**436 241**		

*)The Company 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.

(Data in PLN thousand, unless indicated otherwise)

Test for impairment of investments

Individual investments were tested for impairment as at December 31, 2017. For the purposes of testing shares for impairment, each related entity was treated as a separate cash-generating unit. The recoverable value of investments 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 forecast for periods longer than 5 years or 11 years for PRK7 Nieruchomości Sp. z o.o. are estimated by determining the residual value using the discount rates calculated as the weighted average cost of capital (own and borrowed). A growth rate in the residual period is adopted at the level between 1.2% and 2%. 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 investments for impairment:

As at 31.12.2017	PRK7 Nieruchomości	PEUiM Sp. z o.o.	AB Kauno tiltai	BTW Sp. z o.o.
WACC after tax	10,1%	10,1%	7,9%	10,1%
EBITDA margin	2,8%-9,9%	6,7%-10,3%	5,7%-8,0%	12,9%-15,3%
Growth rate in the residual period	1,2%	2,0%	2,0%	2,0%

As at 31.12.2016	PRK7 Nieruchomości	PEUiM Sp. z o.o.	AB Kauno tiltai	BTW Sp. z o.o.
WACC after tax	10,2%	10,2%	7,4%	10,2%
EBITDA margin	-1,6%-8,3%	5,8%-7,7%	7,4%-9,9%	19,1%-20,4%
Growth rate in the residual period	1,2%	2,0%	2,0%	2,0%

As the tests performed as at December 31, 2017 demonstrated that there was no potential impairment loss, all the investments in shares in the companies within Trakcja Capital Group were disclosed in the same values as in the financial statements as at December 31, 2016.

The sensitivity analysis performed demonstrates that the key factors that affect the estimated value of investments are the profitability of the construction contracts and the adopted discount rate.

Sensitivity analysis of the recoverable value of key investments to changes in individual factors applied in the test for impairment is as follows:

Sensitivity analysis for the investment in AB Kauno Tiltai:

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the investment	
		increase	decrease
EBITDA	+/- 2,5%	27 228	-27 227
WACC	+/- 0,25%	-28 844	31 426

Sensitivity analysis for the investment in PEUiM Sp. z o.o.:

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the investment	
		increase	decrease
EBITDA	+/- 2,5%	2 684	-2 684
WACC	+/- 0,25%	-2 517	2 679

(Data in PLN thousand, unless indicated otherwise)

Sensitivity analysis for the investment in Bahn Technik Wrocław Sp. z o.o.:

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the investment	
		increase	decrease
EBITDA	+/- 2,5%	2 739	-2 739
WACC	+/- 0,25%	-1 795	1 911

Sensitivity analysis for the investment in PRK7 Nieruchomości Sp. z o.o.:

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the investment	
		increase	decrease
EBITDA	+/- 2,5%	1 397	-1 397
WACC	+/- 0,25%	-1 562	1 658

The Company performed sensitivity analysis for changes in EBITDY +/- 2.5% and in WACC +/-0.25%, as a result of which it was demonstrated that a rational change in all the aforementioned events would not result in an impairment loss being recognised.

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

On November 10, 2016 Trakcja PRKiI S.A. (the purchaser) and Leonard Weiss International GmbH (the seller), which at that time held shares in Bahn Technik Wrocław Sp. z o.o. ("BTW"), entered into a conditional share purchase agreement . 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.

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 Company 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 Company'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.

Payment for the acquisition of BTW (fair value)

	31.12.2016 Audited
Cash and cash equivalents	21 500

Any other costs related to the acquisition of shares (mainly costs of legal services and due diligence) were recognised as operating costs in profit or loss for 2016.

(Data in PLN thousand, unless indicated otherwise)

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**

(Data in PLN thousand, unless indicated otherwise)

25. Jointly controlled operations – contracts performed in consortia

The Company performs certain long-term contracts under consortium agreements, as the consortium leader, without establishing separate entities. The Company recognises shares in such contracts as shares in joint operations in accordance with IFRS 11. Therefore, the Company 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.

Contracts performed by the Company as the consortium leader are presented in the table below.

Name of the contract	Country of contract completion	% share of the company in the consortium 31.12.2017	31.12.2016
Modernization of the E 65 / CE 65 railway line on the Warsaw - Gdynia section - LCS Iława area, LCS Malbork	Poland	69,4%	69,0%
Modernization of the E 65 / C-E 65 railway line on the Warsaw - Gdynia section - LCS Działdowo area	Poland	70,5%	70,5%
Modernization of the E 30 / C-E30 railway line, Kraków - Rzeszów section, stage III (Podłęże - Bochnia)	Poland	96,9%	96,9%
Revitalization of railway line no. 144 on the section Fosowskie - Opole	Poland	67,1%	67,1%
Modernization of the E59 railway line on the Wrocław – Poznań section, stage II - section: Wrocław - Dolnośląskie voivodeship	Poland	40,4%	40,4%
Modernization of the E 30 / C-E 30 railway line, Kraków - Rzeszów section, stage III (Dębica - Sędziszów Małopolski)	Poland	86,2%	86,2%
Modernization of the E30 railway line, stage II episode Zabrze - Katowice - Kraków Tender no. 1 - Modernization of sections: Jaworzno Szczakowa - Trzebinia (km 15,810 -9,19,110 of line no. 133) Jaworzno Szczakowa - Sosnowiec Jęzor (km 0.000 - 6.847 lines 134)	Poland	78,3%	78,3%
Modernization of railway line no. 358 on the section Zbąszynek - Czerwieńsk with the construction of the railway link Pomorsko - Przylep, avoiding the stations Czerwieńsk	Poland	93,7%	93,7%
Connection of Korczowa Logistic Park - stage I (construction of the kV line Przemyśl Radymno)	Poland	77,8%	77,8%
Modernization of line no. 20 within the PKP Warszawa Gdańska railway station in conjunction with the E 65 line and the A 17 Dworzec Gdański stage II "subway station as part of the project" Works on the perimeter line in Warsaw (section Warsaw Gołąbki / Warszawa Zachodnia - Warsaw Gdańska)	Poland	59,8%	59,5%
Construction of engineering facilities of the E59 railway line: part A facility at km 145.65	Poland	36,6%	21,5%
Construction of engineering facilities of the E59 railway line: part C of the facility at km 160,857	Poland	11,9%	8,9%
Implementation of construction works under the tender no. 1 - modernization of the Jaworzno Szczakowa-Trzebinia section (km 1,150 - 0,000 of line No. 134, km 15,810 - 29,110 of line no. 133)	Poland	57,7%	57,3%
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”	Poland	47,5%	brak
Designing and execution of works for the task titled Reconstruction of the traction network on the Idzikowice - Opoczno Południe route of the railway line no. 4 of the CMK as part of the project entitled "Modernization of the railway line no. 4 - Centralna Magistrala Kolejowa etap II" - Part 1	Poland	50,8%	brak
Works for the modernization of Maków Mazowiecki 110/15 kV station	Poland	33,5%	brak
Design and reconstruction of the 110kV line between GPZ Radzyń-GPZ Łuków	Poland	91,6%	brak
Construction and extension of the provincial road no. 676 along with road engineering facilities and the necessary technical infrastructure along the Białystok - Supraśl section with the bypass of the town of Ogrodniczki and Krasne	Poland	18,4%	brak

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.

(Data in PLN thousand, unless indicated otherwise)

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
Sales revenue	160 520	39 218
Cost of goods sold	(160 817)	(40 048)
Gross profit (loss) on sales	**(297)**	**(830)**

The Company's balance sheet as at December 31, 2017 does not include any trade receivables or trade liabilities attributable to the consortium members in the amount of PLN 29 978 thousand (31.12.2016: PLN 16,743 thousand).

26. Other financial assets

	31.12.2017 Audited	31.12.2016 Audited
Financial assets held to maturity		
Bank guarantees deposits	14 813	7 355
Loans granted and receivables	1 012	3 215
Total	**15 825**	**10 570**
including:		
- recognised as non-current assets	*5 507*	*4 734*
- recognised as current assets	*10 318*	*5 836*

In 2017 there were no significant impairment losses recognised on the individual financial assets.

27. Prepayments

Structure of the prepayments:

	31.12.2017 Audited	31.12.2016 Audited
Prepayments, including:	14 829	5 983
- insurance and insurance guarantees	10 269	3 029
- PKP (Polish Railways) identification documents	65	-
- repair and maintenance of wagons, locomotives	4 495	2 954
Other prepayments and accruals	378	273
Total	**15 207**	**6 256**

(Data in PLN thousand, unless indicated otherwise)

28. Inventory

	31.12.2017 Audited	31.12.2016 Audited
Materials	47 232	27 945
Semi-finished goods and products in progress	5 856	2 467
Finished goods	159	158
Merchandise	10	10
Total, gross inventory	**53 257**	**30 580**
Inventory revaluation write-offs	**(152)**	**(180)**
Materials	47 107	27 793
Semi-finished goods and products in progress	5 856	2 467
Finished goods	132	130
Merchandise	10	10
Total, net inventory	**53 105**	**30 400**

The costs of inventory recognised in operating costs of the current period were PLN 301 559 thousand (in 2016: PLN 230 281 thousand).

Changes in write-downs of inventory:

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
As at start of period	**180**	**703**
Increases	**74**	**1 055**
Establishment	74	1 055
Decreases	**(102)**	**(1 578)**
Dissolution	(102)	(1 578)
As at end of period	**152**	**180**

Write-downs of inventory are recognised and reversed as the “Cost of goods sold” item in profit or loss. Write-downs of inventory are governed by the principles set forth in Note 8.8. The Company derecognised a write-down of PLN 102 thousand, because the materials concerned were used for the performance of contracts.

No collateral has been established on the inventory.

29. Trade and other receivables

Structure of trade and other receivables:

(Data in PLN thousand, unless indicated otherwise)

	31.12.2017 Audited	31.12.2016 Audited
Gross trade receivables, before discounting	274 743	293 016
Discounting of receivables	-	-
Total, gross trade receivables	**274 743**	**293 016**
including:		
- receivables from related entities	*5 456*	*3 106*
Budgeted receivables	6	6
Receivables claimed in court	3 913	2 948
Other receivables from third parties	15 077	4 578
Amounts held	2 445	3 015
including:		
- receivables from related entities	*18*	*18*
Total, gross trade and other receivables	**296 184**	**303 563**
Receivables revaluation write-offs	(65 209)	(22 261)
Total	**230 975**	**281 302**

Receivables from the Company's related parties are specified in Note 52.

Trade receivables and amounts held:

	31.12.2017 Audited	31.12.2016 Audited
Net trade receivables	225 182	276 882
With maturity within 12 months	223 111	274 604
With maturity over 12 months	2 071	2 278
Discounting of receivables	-	-
Total, net trade receivables after discounting	**225 182**	**276 882**

Receivables due within the period over 12 months include mainly 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	561	740
Over 12 months	1 866	2 257
Total	**2 427**	**2 997**

Trade receivables bear no interest and are usually due in 30 days.

The Company'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 Company's trade receivables. As at the balance sheet date 44% of the total receivables of Trakcja PRKiI are receivables due from PKP PLK S.A. (31.12.2016: 59%).

Due to a short-term nature of trade receivables their carrying amount is close to their fair value.

On May 10, 2013 the Company entered into a recourse factoring agreement. On April 6, 2016 an annex was signed by both parties to the recourse factoring agreement, in keeping with which the factoring limit has been changed to be PLN 50 000 thousand. As December 31, 2017 the Company did not use any of the factoring limit (31.12.2016: PLN 0 thousand).

Changes in impairment losses on receivables:

(Data in PLN thousand, unless indicated otherwise)

	31.12.2017 Audited	31.12.2016 Audited
As at start of period	**22 261**	**19 020**
Increases	**47 148**	**3 941**
Establishment	47 148	3 941
Decreases	**(4 200)**	**(700)**
Use	(953)	(122)
Dissolution	(3 247)	(578)
As at end of period	**65 209**	**22 261**

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 Audited	31.12.2016 Audited
Up to 1 month	117 037	160 430
From 1 month to 3 months	59 090	103 546
From 3 months to 6 months	2 238	-
From 6 months to 1 year	222	-
More than 1 year	2 071	2 279
Overdue receivables	44 524	10 627
Total, net trade receivables and amounts held	**225 182**	**276 882**

The structure of overdue trade receivables is as follows:

	31.12.2017 Audited	31.12.2016 Audited
Up to 1 month	13 299	4 295
From 1 month to 3 months	23 790	872
From 3 months to 6 months	784	2 992
From 6 months to 1 year	38 462	696
More than 1 year	8 988	10 590
Total, gross overdue trade receivables	**85 323**	**19 445**
Receivables revaluation write-offs	(40 799)	(8 816)
Total, net overdue trade receivables	**44 524**	**10 629**

The structure of trade and other receivables by currency is as follows:

	31.12.2017 Audited	31.12.2016 Audited
In PLN	296 138	303 366
In foreign currencies - after conversion into PLN, including:	46	197
in BGN	11	9
in EUR	35	188
Total	**296 184**	**303 563**

Receivables claimed in court:

(Data in PLN thousand, unless indicated otherwise)

	31.12.2017 Audited	31.12.2016 Audited
Receivables claimed in court	3 913	2 948
Revaluation write-offs on receivables claimed in court	(3 913)	(2 948)
Total	**-**	**-**

30. 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 Company's actual requirement for cash and they bear interest accrued according to the negotiated interest rates.

In addition, in keeping with the agreements concluded by the Company, the overdraft and working capital loans in the total amount of PLN 90 million were available to the Company as at December 31, 2017 (31.12.2016: PLN 90 million).

The structure of cash and its equivalents by currency is as follows:

	31.12.2017 Badane	31.12.2016 Badane
W walucie polskiej	20 582	18 790
W walutach obcych - po przeliczeniu na PLN, w tym:	36	30
w EUR	27	23
w USD	3	4
w DKK	1	1
w BGN	5	2
Razem	**20 618**	**18 820**

Cash and cash equivalents disclosed in the balance sheet and in the statement of cash flows consisted of the following items:

	31.12.2017 Audited	31.12.2016 Audited
Cash in hand	56	42
Cash at bank	9 460	1 602
Other cash - deposits	11 102	17 176
Cash and cash equivalents as at end of period	**20 618**	**18 820**

Cash at bank – ratings

	31.12.2017 Audited	31.12.2016 Audited
Bank rated A	741	74
Bank rated A-	538	915
Bank rated A+	1	44
Bank rated BBB	18 013	17 221
Bank rated BBB+	-	1
Bank rated BB	600	461
Bank unrated rating	70	-
Total	**19 963**	**18 716**
Cash in hand	56	42
The balance of the Social Fund (Note 57)	599	62
Cash and cash equivalents as at end of period	**20 618**	**18 820**

Ratings assigned by first-class rating agencies (Fitch and S&P).

(Data in PLN thousand, unless indicated otherwise)

31. Assets held for sale

On December 18, 2015 Trakcja PRKiI and its subsidiary entered into a preliminary agreement for the sale of a plot located at ul. Oliwska 11 in Warsaw. The plot was reclassified from tangible non-current assets to assets held for sale. On December 20, 2017, by notarial deed, Trakcja PRKiI prolonged the deadline for selling the plot until December 28, 2018.

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	3 535	13 272
Surplus of revenues resulting from degree of advancement over invoiced revenues	82 024	13 360
Advances paid towards contracts being performed	36 649	219
Advances received towards contracts being performed	133 826	3 690
Provision for anticipated losses on contracts	1 436	472
Recognised in balance sheet:		
in current assets		
Construction contracts and advances paid towards contracts being performed	**118 673**	**13 579**
in short-term liabilities		
Construction contracts and advances received towards contracts being performed	**138 797**	**17 434**

Advances received towards contracts being performed increased due to the award of new contracts to the Company. 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 Company manages a capital risk in order to keep the Company 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 Company may issue new shares, change the amount of dividends paid to its shareholders, increase debt or decrease debt through the realisation of assets. The Company monitors its capital structure using debt ratios. The ratios analysed by the Company, presented in the below table, allow for the good credit rating to be maintained and confirm that the Company's capital structure supports its operating activities.

FINANCING STRUCTURE RATIOS	31.12.2017 *Audited*	31.12.2016 *Audited*	Change
Equity to assets ratio	0,57	0,62	-0,05
Equity to non-current assets ratios	0,95	0,95	0,00
Debt ratio	0,43	0,38	0,05
Debt to equity ratio	0,76	0,62	0,14

(Data in PLN thousand, unless indicated otherwise)

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 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

34. Equity

Share capital

As at December 31, 2017 the share capital amounted to PLN 41 119 638.40 and was divided into 51 399 548 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.

	31.12.2017 Audited	31.12.2016 Audited
	Par value 0.8 PLN	Par value 0.8 PLN
Series A ordinary shares	51 399 548	51 399 548
Total	**51 399 548**	**51 399 548**

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 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 is non-distributable.

- Actuarial gains (losses) – The Company 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.

Undistributed profit or loss

The Company's undistributed profit or loss is the current profit or loss for a given financial year.

Foreign exchange differences from conversion of foreign currencies

In 2016 the Company opened an establishment in Bulgaria, whose functional currency is the Bulgarian lev (BGN). The Company translates the financial data of the establishment into the presentation currency (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 positive and amounted to PLN 7 thousand (2016: PLN -9 thousand).

Other comprehensive income by equity component

(Data in PLN thousand, unless indicated otherwise)

	Revaluation reserve	Other capital reserves	Foreign exchange differences on translation of foreign operations	Total
As at 31.12.2017				
Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:	**-**	**(79)**	**-**	**(79)**
Actuarial gains/(losses)	-	(79)	-	(79)
Other comprehensive income, which will be reclassified to profit or loss:	**-**	**-**	**16**	16
Foreign exchange differences on translation of foreign operations	-	-	**16**	16
Other comprehensive net income	**-**	**(79)**	**16**	**(63)**

	Revaluation reserve	Other capital reserves	Foreign exchange differences on translation of foreign operations	Total
As at 31.12.2016				
Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:	**(490)**	**1 249**	**-**	**759**
Profits from revaluation	(490)	-		(490)
Actuarial gains/(losses)	-	1 249	-	1 249
Other comprehensive income, which will be reclassified to profit or loss:	**-**	**-**	**(9)**	**(9)**
Foreign exchange differences on translation of foreign operations	-	-	(9)	(9)
Other comprehensive net income	**(490)**	**1 249**	**(9)**	**750**

(Data in PLN thousand, unless indicated otherwise)

35. Provisions

	Provision for legal cases	Provisions for correction works	Provisions for bonuses	Provision for non-competition and compensation	Provisions for balance sheet audit	Provision for restructuring	Cost provisions	Other provisions	Total
As at 1.01.2017 Audited	**-**	**30 572**	**1 286**	**900**	**149**	**1 831**	**303**	**2 257**	**37 299**
Recognised in profit and loss account:									
- provision creation	-	1 628	3 511	-	168	-	-	-	**5 307**
- release of unused provisions	-	(17 077)	(235)	-	(100)	(1 831)	-	(1 822)	**(21 065)**
- use of provisions	-	(8 032)	(1 053)	(750)	(49)	-	(303)	(2)	**(10 190)**
Total	**-**	**(23 481)**	**2 223**	**(750)**	**19**	**(1 831)**	**(303)**	**(1 824)**	**(25 948)**
As at 31.12.2017 Audited	**-**	**7 091**	**3 509**	**150**	**168**	**-**	**-**	**433**	**11 351**
As at 1.01.2016 Audited	**1 000**	**5 703**	**1 202**	**1 529**	**99**	**-**	**1 288**	**58**	**10 879**
Recognised in profit and loss account:									
- provision creation	-	32 667	1 288	900	194	2 431	-	3 141	**40 621**
- release of unused provisions	(1 000)	(389)	-	-	-	-	-	-	**(1 389)**
- use of provisions	-	(7 409)	(1 204)	(1 529)	(144)	(601)	(985)	(942)	**(12 814)**
Total	**(1 000)**	**24 869**	**84**	**(629)**	**50**	**1 831**	**(985)**	**2 199**	**26 420**
As at 31.12.2016 Audited	**-**	**30 572**	**1 286**	**900**	**149**	**1 831**	**303**	**2 257**	**37 299**

In 2017 the Company reversed the provision for restructuring in the amount of PLN 1 831 thousand. The provision is described in detail in Note 2.4. 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 Company to release provisions for additional works in the amount of PLN 17 077 thousand.

(Data in PLN thousand, unless indicated otherwise)

36. Interest-bearing loans and borrowings

Long-term interest-bearing loans and borrowings:

	31.12.2017 Audited	31.12.2016 Audited
Bank loans	13 911	16 974
- investment loans	13 911	16 974
Loans from other entities	4 068	8 761
- project purpose loans	4 068	8 761
Financial lease liabilities	26 529	29 024
Total	**44 508**	**54 759**

Short-term interest-bearing loans and borrowings:

	31.12.2017 Audited	31.12.2016 Audited
Bank loans	5 059	4 529
- working loans	5 059	4 529
Loans from other entities	4 693	4 495
- project purpose loans	4 693	4 495
Financial lease liabilities	9 985	7 224
Total	**19 737**	**16 249**
Total short and long term loan and credits	**64 245**	**71 008**

Loans and borrowings as at December 31, 2017 are listed in the table below.

Lender	Type of loan/credit	Amount according to the agreement in the currency	Currency	Maturity date	Interests	Outstanding amount (in ths. PLN)
mBank S.A.	project purpose loans	21 500	PLN	30.09.2021	WIBOR 1M + margin	18 970
mBank S.A.	working capital loans	50 000	PLN	27.09.2019	WIBOR 1M + margin	-
mBank S.A.	overdraft	20 000	PLN	26.04.2018	WIBOR O/N + margin	-
Pekao S.A.	working capital loans	20 000	PLN	31.05.2018	WIBOR 1M + margin	-
mLeasing Sp. z o.o.	project purpose loans	22 400	PLN	16.09.2019	WIBOR 1M + margin	8 761
					TOTAL	**27 731**

Maturity of the Company's loans and borrowings by currency:

	31.12.2017 Audited	31.12.2016 Audited
In PLN	64 245	71 008
Total	**64 245**	**71 008**

The interest rate of a loan, borrowing or lease depends on the WIBOR interest rate and bank's margin.

The overdraft and working capital loans in the total amount of PLN 90 million were available to the Company as at December 31, 2017 (31.12.2016: PLN 90 million). The Company has also been granted a factoring limit in the amount of PLN 50 000 thousand.

(Data in PLN thousand, unless indicated otherwise)

Fair value of loans and borrowings closely corresponds to their carrying amounts.

37. Other financial liabilities

The Company's other financial liabilities include factoring liabilities. As at December 31, 2017 their balance was PLN 0 (31.12.2016: PLN 0 thousand). On May 10, 2013 the Company entered into a recourse factoring agreement. The factoring limit granted by an annex signed to the recourse factoring agreement by both parties on April 6, 2016, is PLN 50 000 thousand. The interest is calculated at the variable WIBOR O/N rate increased by the factor's fixed margin.

38. Employee benefit liabilities

Provisions for retirement and pension benefits and jubilee bonuses:

	Provision for pension benefits	Provision for jubilee awards
As at 01.01.2017 Audited	**3 312**	**6 391**
Total costs recognised in profit and loss account:		
- Interest costs	63	109
- Current service costs	303	223
- Past service costs	(1 754)	(2 634)
Actuarial losses (profit) recognised in other comprehensive income	98	-
Actuarial losses (profit) recognised in profit and loss statement	-	-
Benefits paid	(428)	(1 464)
Total	**(1 718)**	**(3 766)**
As at 31.12.2017 Audited	**1 594**	**2 625**

	Provision for pension benefits	Provision for jubilee awards
As at 01.01.2016 Audited	**4 098**	**6 946**
Total costs recognised in profit and loss account:		
- Interest costs	83	142
- Current service costs	1 129	970
- Past service costs	-	-
Actuarial losses (profit) recognised in other comprehensive income	(1 543)	-
Actuarial losses (profit) recognised in profit and loss statement	(455)	142
Benefits paid	-	(1 809)
Total	**(786)**	**(555)**
As at 31.12.2016 Audited	**3 312**	**6 391**

(Data in PLN thousand, unless indicated otherwise)

Provisions for unused holiday leaves:

Provisions for unused leaves	31.12.2017 Audited	31.12.2016 Audited
Balance at the beginning of the period	**5 895**	**5 047**
Recognised in income statement:	**620**	**848**
- provision creation	994	1 982
- release of unused provision	-	-
- use of provision	(374)	(1 134)
Balance at the end of the period	**6 515**	**5 895**

Employee benefits maturity analysis:

	Provision for pension benefits	Provision for jubilee awards
During 1 year	732	853
From 1 to 4 years	597	1 685
Over 4 years	265	87
Total	**1 594**	**2 625**

The average weighted term of employee benefit liabilities upon the termination of employment is 2 years.

Rules for creating provisions for employee benefits:

The Company 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 Company creates a provision for the present value of liabilities from retirement and pension benefits and jubilee bonuses. On June 3, 2017 the 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 retirement and pension benefits and jubilee bonuses was calculated as at December 31, 2017 and as December 31, 2016 using a discount rate, respectively, of 2.25% and 1.8% of the salary growth. 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	decrease
Discount rate	+/- 1%	(82)	86
Salary growth	+/- 1%	86	(83)

The present value of future employee benefit liabilities corresponds to their carrying amount.

(Data in PLN thousand, unless indicated otherwise)

39. Trade and other liabilities

	31.12.2017 Audited	31.12.2016 Audited
Trade liabilities, before discounting	215 744	217 173
Discounting of liabilities	-	-
Total, net trade liabilities after discounting	**215 744**	**217 173**
including:		
- liabilities from related entities	10 941	4 966
Amounts held	10 051	11 379
Budgetary liabilities	23 921	13 186
Payroll liabilities	2 021	2 345
Other liabilities towards third parties	347	970
Total trade and other liabilities	**252 084**	**245 053**

Other liabilities towards the related entities relate to the transaction described in Note 24 hereto.

Liabilities towards the related parties are specified in Note 52.

Maturity of trade liabilities and amounts held:

	31.12.2017 Audited	31.12.2016 Audited
Trade liabilities before discounting	225 795	228 552
With maturity within 12 months	221 542	226 688
With maturity over 12 months	4 253	1 864
Discounting of liabilities	-	-
Total, Trade liabilities after discounting	**225 795**	**228 552**

Liabilities due within the period over 12 months are the amounts held.

In 2017 and 2016 the Company discontinued recognising a discount rate on the liabilities due within the period over 12 months 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	250 142	244 165
In foreign currencies - after conversion into PLN, including:	1 942	888
in EUR	1 922	888
in BGN	20	-
Total	**252 084**	**245 053**

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 mainly 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.

(Data in PLN thousand, unless indicated otherwise)

40. Liabilities from operating leases – the Company as a lessee

As at December 31, 2017 the Company 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 Company 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 cost of lease payments resulting from the operating lease agreements was recognised in profit or loss for the period ended at December 31, 2017 in the amount of PLN 1 069 thousand (31.12.2016: PLN 288 thousand).

The total amounts of future minimum 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**

Future payments for the right of perpetual usufruct of land:

	31.12.2017 Audited	31.12.2016 Audited
Within 1 year	949	830
Within 1 to 5 years	3 794	3 319
Over 5 years	55 491	56 436
Total	**60 234**	**60 585**

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.

41. Finance lease liabilities

The Company uses some of its manufacturing equipment under finance lease agreements. The Company may purchase the equipment leased for its nominal value at the end of the agreements. The Company'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:

(Data in PLN thousand, unless indicated otherwise)

	31.12.2017 Audited	31.12.2016 Audited
Nominal value of minimum leasing fees		
Within 1 year	11 293	8 633
Within 1 to 5 years	24 462	27 006
Over 5 years	3 981	4 329
Total financial lease liabilities - total minimum leasing fees	**39 736**	**39 968**
Financial costs on account of financial lease	**(3 222)**	**(3 720)**
Present value of minimum leasing fees		
Within 1 year	9 985	7 224
Within 1 to 5 years	22 667	24 821
Over 5 years	3 862	4 203
Total present value of minimum leasing fees	**36 514**	**36 248**

42. Receivables from operating lease – the Company as a lessor

The Company is a party to lease agreements, in which it acts as a lessor. These agreements are for the lease of premises in the investment properties of the Company. The lessee has no option to purchase the assets leased after the expiry of the agreement.

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	249	183
Within 1 to 5 years	-	-
Over 5 years	-	-
Total	**249**	**183**

43. Information about financial instruments

In the period covered by the annual financial statements and in the comparable period the Company held the following financial instruments:

- Loans granted and own receivables – cash and short-term deposits, trade and other receivables, except for budget receivables, short-term borrowings granted, bank deposits that secure guarantees granted to the Company by banks;
- Financial liabilities measured at amortised cost – bank loans, leases and factoring, trade and other liabilities except for budget liabilities.

(Data in PLN thousand, unless indicated otherwise)

As at 31.12.2017	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	5 507	-
Total	**5 507**	**-**
recognised as current assets	-	
Trade and other receivables	230 975	-
Other financial assets	10 318	-
Cash and cash equivalents	20 618	-
Total	**261 911**	**-**
recognised as long-term liabilities		
Interest-bearing loans and borrowings	-	44 508
Total	**-**	**44 508**
recognised as short-term liabilities		
Interest-bearing loans and borrowings	-	19 737
Trade and other liabilities without budgetary liabilities	-	228 163
Total	**-**	**247 900**
Total	**267 418**	**292 408**

As at 31.12.2016	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	4 734	-
Total	**4 734**	**-**
recognised as long-term liabilities	-	
Trade and other receivables	281 302	-
Other financial assets	5 836	-
Cash and cash equivalents	18 820	-
Total	**305 957**	**-**
recognised as long-term liabilities		
Interest-bearing loans and borrowings	-	54 759
Total	**-**	**54 759**
recognised as short-term liabilities		
Interest-bearing loans and borrowings	-	16 249
Trade and other liabilities	-	231 867
Total	**-**	**248 116**
Total	**310 691**	**302 875**

44. Fair value of financial instruments

Comparison of fair value and carrying amount:

(Data in PLN thousand, unless indicated otherwise)

Classes of financial instruments	As at 31.12.2017 Book value	As at 31.12.2017 Fair value	As at 31.12.2016 Book value	As at 31.12.2016 Fair value
Loans granted	1 012	1 012	3 215	3 215
Bank guarantees deposits	14 813	14 813	7 355	7 355
Trade and other receivables (excluding budgetary receivables)	230 969	230 969	281 296	281 296
Cash and cash equivalents	20 618	20 618	18 820	18 820
Interest-bearing loans and borrowings, financial lease liabilities	64 245	64 245	71 008	71 008
Trade and other liabilities (excluding budgetary liabilities)	228 163	228 163	231 867	231 867

Methods and, when a valuation technique is used, assumptions adopted to determine fair values of individual categories of financial instruments

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.

The Company 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.

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.

45. Objectives and principles of financial risk management

When carrying out its operating activities Trakcja PRKiI is exposed to a number of financial risks. The Company manages risks in order to mitigate an effect of adverse factors on its financial performance.

Currency risk

The Company's activities are not significantly exposed to the fluctuations in foreign exchange rates. As at December 31, 2017 the Company had cash in the amount of EUR 6 thousand, USD 1 thousand, and BGN 2 thousand (31.12.2016: EUR 5 thousand, USD 1 thousand and BGN 1 thousand), trade and other receivables in the amount of BGN 5 thousand and EUR 8 thousand (31.12.2016: EUR 43 thousand and BGN 4 thousand) and liabilities in the amount of EUR 461 thousand and BGN 10 thousand (31.12.2016: EUR 201 thousand).

Risk related to the increasing portfolio of overdue receivables

As at the preparation hereof the Company 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 Company's financial condition.

Liquidity risk

Similarly to the majority of entities operating in the construction industry, the Company'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 Company's liquidity and requirement for working capital. The Company's liquidity is also affected by the fact that its key customers obtain financial funds for purchases of the Company'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 Company from the obligation to pay the VAT within the time limits set in the VAT Act.

(Data in PLN thousand, unless indicated otherwise)

Irregular proceeds from customers may have an adverse impact on the Company's liquidity. On the other hand, Trakcja PRKiI 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 Company's financial situation.

In order to mitigate the liquidity risk the Company uses external sources of financing in the form of loans (working capital loans, overdrafts and investment loans) and factoring. Loans and borrowings as at December 31, 2017, along with their maturity dates, are presented in Note 36. In addition, the Company 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 Company'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. The amounts disclosed in the table include the contractual undiscounted cash flows.

As at 31.12.2017 Audited	**Within 3 months**	**From 3 to 12 months**	**Over 1 year**
Interest-bearing loans and borrowings	2 420	7 332	17 979
Financial lease liabilities	1 987	7 998	26 529
Payables and other liabilities (without budget liabilities)	218 908	2 647	4 240

As at 31.12.2017 Audited	**Within 3 months**	**From 3 to 12 months**	**Over 1 year**
Interest-bearing loans and borrowings	1 857	6 419	29 428
Financial lease liabilities	2 208	6 617	31 244
Payables and other liabilities (without budget liabilities)	224 514	2 174	1 864

Interest rate risk

As at December 31, 2017 and as at December 31, 2016 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 Company. Loans and borrowings incurred by the Company are described in detail in Note 36.

The analysis of an impact of the interest rate variability on the Company'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 percentage point.

(Data in PLN thousand, unless indicated otherwise)

	Value at the balance sheet date	Sensitivity to changes as at December 31, 2017	
		+ 100 pb	- 100 pb
Trade receivables (present value)	274 743		
Trade payables (present value)	215 744		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	35 431	354	(354)
Loans and credit, factoring liability, bonds (nominal value/interest)	64 245	(642)	642
Gross impact on period result and net assets		**(288)**	**288**
Deferred tax		(55)	55
Total		**(233)**	**233**

	Value at the balance sheet date	Sensitivity to changes as at December 31, 2016	
		+ 100 pb	- 100 pb
Trade receivables (present value)	293 016		
Trade payables (present value)	217 173		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	26 175	262	(262)
Loans and credit, factoring liability, bonds (nominal value/interest)	71 008	(710)	710
Gross impact on period result and net assets		**(448)**	**448**
Deferred tax		(85)	85
Total		**(363)**	**363**

Credit risk

The Company's credit risk is related primarily to the trade receivables. Trakcja PRKiI follows a policy of entering into transactions with customers with high creditworthiness and verifiable credit capacity. Credit capacity is rated on a regular basis. If the customer's credit capacity is found unsatisfactory, the Company applies 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 financial statements corresponds to the Company's maximum exposure to a credit risk (without collateral). As at the balance sheet date 44% of the total receivables are receivables from PKP PLK S.A. This signifies that the credit risk concentration is high.

Information on overdue trade receivables and impairment losses thereon is provided in Note 29.

Loans granted constitute mainly borrowings granted to a subsidiary. A credit risk related to such borrowings is limited, because the Company has under its control the operating activities of the subsidiary concerned.

The Company cooperates with financial institutions with high creditworthiness. 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	Book value 31.12.2016
Loans to:	1 012	3 215
- subsidiaries	1 012	3 215
Trade receivables and other gross beyond budget:	296 179	303 558
- from unrelated parties	290 723	300 452
- from subsidiaries	5 456	3 106
Cash and cash equivalents	20 618	18 820
Bank guarantees deposits	14 813	7 355
Total	**332 622**	**332 948**

Objectives and principles of financial risk management

The Company 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 Company's cash flows and performance. The Company measures derivative instruments at fair value. For registration purposes the Company uses bank evaluations.

46. 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.

	31.12.2017 Audited	Level 1	Level 2	Level 3
Investment property:	**17 174**	-	-	17 174
Office property	17 174			17 174
- land	13 739			13 739
- buildings	3 435			3 435

	31.12.2016 Audited	Level 1	Level 2	Level 3
Investment property:	**17 174**	-	-	17 174
Office property	17 174			17 174
- land	13 739			13 739
- buildings	3 435			3 435

Assumptions adopted for determining fair values:

- investment properties are described in Note 22 of the Notes.

(Data in PLN thousand, unless indicated otherwise)

47. Contingent receivables and liabilities

Contingent receivables and liabilities are presented in the table below:

	31.12.2017 Audited	31.12.2016 Audited
Contingent receivables		
From related entities due to:	**78 389**	**70 075**
Received guarantees and sureties	75 212	65 240
Bills of exchange received as collateral	3 177	4 835
Total contingent receivables	**78 389**	**70 075**
Contingent liabilities		
From other entities due to:	**2 313 021**	**2 002 238**
Provided guarantees and sureties	701 044	509 877
Promissory notes	481 638	547 720
Mortgages	99 000	99 000
Assignment of receivables	897 275	722 767
Assignment of rights under insurance policy	47 305	41 559
Security deposits	19 765	12 133
Other liabilities	66 994	69 183
Total contingent liabilities	**2 313 021**	**2 002 239**

Contingent liabilities from guarantees and sureties granted to other entities are principally guarantees issued by banks for the benefit of business partners of the Company as collateral for their claims against the Company arising out of the construction contracts performed (performance bonds, retention bonds and advance payment guarantees). Banks have a right of recourse against the companies of the Company. 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 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 Company had contingent receivables in the amount of PLN 1 407 thousand (31.12.2016: 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 Company, 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 5 554 thousand as at December 31, 2017 (31.12.2016: PLN 5 821 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 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 much more developed 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 Company may be increased by additional tax liabilities. In the Company's opinion, provisions recognised as at the end of 2017 are sufficient to mitigate the recognised and measurable tax risk.

48. Significant disputes and court cases

As at December 31, 2017 the 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 Company also informs that the total value of the proceedings concerning its claims and liabilities constitutes at least 10% of the Company's equity. The total value of the proceedings concerning the Company's claims as at December 31, 2017 was PLN 160 326 513.79 and the total value of proceedings concerning the 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)

Trakcja S.A. in Warsaw 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 covered 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 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 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 Company filed a complaint which was overruled. On June 8, 2015 the 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 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 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 Company informed in the consolidated report for the 9-month period ended on September 30, 2017 in Note 25 "Interests in joint ventures", the 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 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 Company's claim is PLN 20 551 495.00 together with 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 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 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 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 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 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 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 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 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.

(Data in PLN thousand, unless indicated otherwise)

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.

49. Dividends paid and declared

In 2017 the Company 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 Annual General Meeting decided that the dividend date would be July 5, 2017 and that dividends would be paid on July 19, 2017.

50. Assets used as security

Assets used as security in carrying amounts:

	31.12.2017 Audited	31.12.2016 Audited
Tangible non-current assets	31 981	32 519
Deposits	14 813	12 133
Receivables	32 352	90 616
Shares	11 754	11 754
Cash	365	-
Total	**91 265**	**147 022**

The shares used as security are shares in BTW.

51. Information on guarantees and sureties granted and assets used as collateral

As at December 31, 2017 the Company used the following assets as collateral:

Mortgages

Charged property	The amount of a mortgage	Mortgaged	Comments
Real estate situated in Warsaw at Street Kniaziewicza	24 000	Credit	Tangible assets
Real estate situated in Wroclaw at Street Lotnicza	75 000	Credit	Tangible assets
TOTAL	**99 000**		

(Data in PLN thousand, unless indicated otherwise)

52. Information on the related entities

The total amounts of transactions made with the related entities in the financial year concerned are specified below.

Related entities	Financial year	Sale to related entities	Purchases from related entities	Interest revenue	Financial income due to dividends received
Shareholders:					
COMSA S.A.	1.01.17-31.12.17	-	1 381	-	-
	1.01.16-31.12.16	-	1 801	-	-
Subsidiaries:					
PRK7 Nieruchomości Sp. z o.o.	1.01.17-31.12.17	34	137	28	-
	1.01.16-31.12.16	23	18	20	776
Torprojekt Sp. z o.o.	1.01.17-31.12.17	272	7 123	-	790
	1.01.16-31.12.16	140	2 802	-	615
AB Kauno Tiltai	1.01.17-31.12.17	2 983	-	-	19 144
	1.01.16-31.12.16	2 986	-	-	22 617
PEUiM Sp. z o.o.	1.01.17-31.12.17	234	9 290	-	1 667
	1.01.16-31.12.16	166	1 020	-	1 309
PDM Białystok S.A.	1.01.17-31.12.17	489	-	-	-
	1.01.16-31.12.16	-	-	-	-
Dalba Sp. z o.o.	1.01.17-31.12.17	4	-	14	-
	1.01.16-31.12.16	17	-	-	-
AB Kauno Tiltai Lenkijos skyrius	1.01.17-31.12.17	1 416	2	-	-
	1.01.16-31.12.16	-	-	-	-
BTW Sp. z o.o.	1.01.17-31.12.17	3 555	6 751	-	-
Joint venture:					
BTW Sp. z o.o.	1.01.16-30.12.16	1 020	5 107	-	-
Total	**1.01.17-31.12.17**	**8 987**	**24 684**	**42**	**21 601**
	1.01.16-31.12.16	**4 352**	**10 748**	**20**	**25 317**

(Data in PLN thousand, unless indicated otherwise)

Information on receivables from and liabilities towards the related entities as at the end of the financial year concerned is provided below.

Related entities	Reporting date	Receivables from related entities	Liabilities towards related entities	Loans granted
Shareholders:				
COMSA S.A.	31.12.2017	-	808	-
	31.12.2016	-	831	-
Subsidiaries:				
PRK7 Nieruchomości Sp. z o.o.	31.12.2017	11	1	-
	31.12.2016	2	-	3 215
TORPROJEKT Sp. z o.o.	31.12.2017	14	3 258	-
	31.12.2016	23	1 579	-
AB Kauno Tiltai	31.12.2017	3 033	3	-
	31.12.2016	2 999	3	-
PEUiM Sp. z o.o.	31.12.2017	44	5 043	-
	31.12.2016	-	425	-
PDM Białystok S.A.	31.12.2017	4	-	-
	31.12.2016	-	-	-
Dalba Sp. z o.o.	31.12.2017	1	-	1 012
	31.12.2016	-	-	-
AB Kauno Tiltai Lenkijos skyrius	31.12.2017	1 398	-	-
	31.12.2016	-	-	-
BTW Sp. z o.o.	31.12.2017	951	1 828	-
	31.12.2016	82	2 128	-
Total	**31.12.2017**	**5 456**	**10 941**	**1 012**
	31.12.2016	**3 106**	**4 966**	**3 215**

Transactions with the related entities are made at arm's length.

The Company and its shareholder, COMSA S.A., have signed an agreement for granting to the 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 organization, 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 guarantees 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.

(Data in PLN thousand, unless indicated otherwise)

Loans granted to the related entities as at December 31, 2017 are presented in the table below.

Borrower	Amount of loan (ths. PLN)	Currency	Maturity date	Interests	Amount left to be paid	Capital relationship
Dalba Sp. z o.o.	1 000	PLN	31.03.2018	WIBOR 1 M + margin	1 012	subsidiary
TOTAL	**1 000**				**1 012**	

Loans granted to the related entities are recognised in the short-term part of other financial assets.

53. Information on benefits for key personnel

Remuneration of the Company's management and supervising bodies' members in 2017:

Remuneration of the Management Board of Trakcja PRKiI:

Remuneration of the Management Board	Year ended 31.12.2017		31.12.2016	
	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
Total	**3 151**	**1 097**	**3 942**	**1 894**

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.
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.

Except for the event described above, the Company did not enter into any significant transactions with the management in 2017.

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 PRKiI for the financial year ended December 31, 2017.

Remuneration of the Supervisory Board of the Parent company	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	969	250	578	262
Total	**969**	**250**	**578**	**262**

(Data in PLN thousand, unless indicated otherwise)

54. Significant events in the financial year and after the balance sheet date

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

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

(Data in PLN thousand, unless indicated otherwise)

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

(Data in PLN thousand, unless indicated otherwise)

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	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

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)

Significant 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

55. 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 financial statements did not exceed 100%, and therefore the financial statements did not have to be restated using the consumer price index.

56. Employment

Average employment in the Company was as follows:

Average employment in the Company during the reporting period:	**Year ended**	
	31.12.2017 Audited	**31.12.2016 Audited**
Management Board of Parent entity	3	5
Administration	127	126
Sales department	7	6
Production division	856	848
Other employees	0	1
Total	**993**	**986**

Employment in the Company as at the balance sheet date was as follows:

Employment in the Company	**31.12.2017 Audited**	**31.12.2016 Audited**
Management Board of Parent entity	5	3
Administration	136	130
Sales department	6	6
Production division	923	798
Total	**1 070**	**937**

(Data in PLN thousand, unless indicated otherwise)

57. 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 Company 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 Company's social activities, loans granted to its employees and other social costs. The Company set off the fund's assets with its liabilities towards the fund, because such assets are not separate assets of the Company.

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	521	661
Cash	1 238	715
Liabilities attributable to the Fund	(1 160)	(1 314)
Balance after compensation	**599**	**62**
Contributions to the fund during the financial period	**1 363**	**1 248**

58. 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 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 of the statutory auditor for the services rendered for the Company is presented in the table below.

	Year ended	
	31.12.2017 Audited	31.12.2016 Audited
On account of agreement for financial statement audit	168	144
On account of agreement for financial statement review	76	72
Other certified services	41	5
Total	**285**	**221**

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.

The chief statutory auditor and the audit company stated that in 2017 they rendered for the entity or for the entities under the entity's control 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 keeping the accounting records:

Elżbieta Okuła

Chief Accountant

TRAKCJA PRKiI S.A.

WARSZAWA, UL. ZŁOTA 59

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR 2017

WITH

AUDITOR’S REPORT

Deloitte.

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REPORT ON THE ACTIVITIES OF THE COMPANY FOR THE FINANCIAL YEAR 2017

Deloitte Audyt
Spółka z ograniczoną odpowiedzialnością Sp. k.
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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 financial statements of Trakcja PRKiI S.A. with its registered office in Warsaw, Złota Street 59 (hereinafter: "Company") comprising: a balance sheet prepared as at 31 December 2017, profit and loss account and statement of comprehensive income, statement of changes in equity, 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 ("financial statements").

Responsibility of the Company's manager and those charged with governance for the financial statements

The Management Board of the Company is obliged to prepare the financial statements based on properly kept accounting records 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 Company is also responsible for ensuring internal control necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act, the Management Board of the Company and members of its Supervisory Board are obliged to ensure that the 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 financial statements give a true and fair view of the financial and economic position as well as the financial performance of the entity 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 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*").

Deloitte.

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The objective of the audit is to obtain reasonable assurance about whether the financial statements as a whole have been prepared based on properly kept accounting records and 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 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 financial statements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 the Management Board of the Company, as well as evaluating the overall presentation of the financial statements.

The scope of the audit does not include an assurance regarding the future profitability of the audited entity or the effectiveness of the Company's Management Board in managing the Company'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 Committe issued as of 15th March 2018.

Independence

During the audit the key certified auditor and the audit firm remained independent of the audited entity 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.

Choice of audit firm

We were appointed to audit the financial statements of the Company by resolution no. 13 of the Supervisory Board adopted on 23rd May 2017. We have been auditing the financial statements of the entity 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. Where deemed appropriate for the understanding of the identified risks and the audit procedures performed by the auditor, we also included the most important findings related to those risks.

Description of the risks of material misstatement	Procedures carried out by the auditor in response to identified risks
Analysis of impairment of shares and in subsidiary companies	
Trakcja PRKiI S.A. holds significant investments in subsidiary companies that operate in the construction market in Poland and in Lithuania. The accumulated value of the shares held in subsidiaries shown in the Company's financial statements amounted to PLN 436 241 thousand as at 31 December 2017 (note 24). Bearing in mind the materiality of the item in the financial statements of the Company, 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 Company's financial statements concerning the financial year ended 31 December 2017. In Note 24 of the financial statements the Company has presented information about the impairment testing, including the results of the test, sensitivity analysis and description of the assumptions made.	In particular, our audit procedures involved: • understanding and assessment of the procedure of identification of indications of the impairment of shares in subsidiary companies 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 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 analysis of the validity of key macroeconomic assumptions; – an assessment of the methods 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 assessment of the 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 Company's financial statements.
Correctness of accounting for construction contracts	
In 2017 the Company generated revenue from performance of construction contracts in the amount of PLN 834 415 thousand (Note 13) which resulted in recognition of assets on account of the surplus of determined revenue over invoiced revenue of PLN 82 024 thousand (Note 32) in the financial statements as at 31 December 2017. The Company recognizes revenue arising from contract performance using the percentage of	Our audit procedures aimed to assess the correctness of accounting for construction contracts involved the following: • 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

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 Company's operations and it significantly influences 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.

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 financial statements:

- give a true and fair view of the economic and financial position of the Company as at 31 December 2017 and its financial performance during the financial year from 1st January 2017 to 31st December 2017 , in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies);
- have been prepared based on properly kept — in line with chapter 2 of the Accounting Act — accounting records
- 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 entity.

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.

The Management Board of the Company and members of the Supervisory Board are responsible for the preparation of the report on the activities in line with the provisions of law.

Under the act on statutory auditors we were obliged to issue an opinion as to whether the report on the activities complies with the provisions of law and is consistent with underlying information disclosed in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities and to describe the misstatement (if any), based on our knowledge of the Company and its business environment obtained in the course of the audit.

In our opinion, the report on the activities has been prepared in line with the applicable provisions of law and is consistent with the underlying information disclosed in the attached financial statements. Furthermore, we represent that based on our knowledge of the entity and its business environment obtained in the course of the audit of the financial statements, we believe that the report on the activities is free from material misstatements.

Opinion on the statement of compliance with corporate governance principles

The Management Board of the 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 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 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 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 entity 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.

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.