TRAKCJA PRKiI S.A.

ANNUAL REPORT

OF TRAKCJA PRKiI S.A.

FOR THE FINANCIAL YEAR

ENDED ON 31 December 2016

published pursuant to Article 82.1 3 of the Regulation of the Minister of Finance dated 19 February 2009 on the current and periodic disclosures to be made by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (Journal of Laws 2014, item 133).

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

Warsaw, 21 March 2017

Content of the Annual Report:

Dear Sirs,

The previous year was a serious challenge for the construction market in Poland. The absence of large tenders, a decline of orders and delays in launching new investment programmes affected the well-being of the whole industry. Trakcja PRKiI S.A. successfully complied with this difficult test, yet again proving its high operating efficiency and ability to quickly deploy important decisions. The key challenge involved maintaining the revenues despite the market decline. Owing to a very active tendering policy orientated at smaller projects which in the past fell outside the Company's core business operations, the Company's revenues in the railway segment increased by over 3%. Simultaneously, the Company saw its revenues climbing significantly in the bridge industry and nearly by 18% in the manufacturing segment. The diversification of operations continued and new operational units were opened in Gdańsk, Kraków and Lublin. As a result, the revenues from the road market doubled and the energy segment experienced effective growth. All these efforts have translated into the increase in the Company's revenues by over 8%.

Trakcja PRKiI S.A. is comprehensively prepared to perform activities specified in the National Railway Programme. An efficient and fast employment restructuring process resulted in the resources being fully consolidated and a new contract-oriented organisation being developed. New employees also joined our engineering and technical personnel. We have significantly enhanced our contracting capacity by acquiring full control over Bahn Technik Wrocław which has specialised machines and equipment. At the same time, Trakcja PRKiI purchased additional high-performance machines and continued modernising those already owned.

Last year saw our active engagement in pursuit of opportunities on international markets. We opened offices in Bulgaria and Ukraine, and our Lithuanian company Kauno Tiltai not only continues to lead on its national market, but also keeps attracting new contracts in Sweden.

Thanks to effective coordination of its operations, Trakcja Group has been steadily increasing the scope of its activities and entering new markets, while paying special attention to provide for sustainable growth and mitigation of potential risks.

We enjoy a high level of confidence of our customers and contractors, as well as the capital market. Last year, we effectively implemented procedures under both the Market Abuse Regulation and the Market Abuse Directive, which set forth new transparency standards for enterprises. By the end of 2016, we joined the group of companies consisting Respect Index, listed on the Warsaw Stock Exchange. Thereby, Trakcja PRKiI has proven that it follows the highest management standards in the area of corporate governance, social responsibility and environmental protection.

We are fully aware of the fact that the last difficult year was turned by Trakcja Group to good account and that the directions and strategy of measures adopted by the Company will form the cornerstones for abiding confidence of our customers and shareholders.

Please read our report for 2016 for more information. Yours faithfully,

On behalf of the Company's Management Board

Jarosław Tomaszewski

President of the Board

Trakcja PRKiI S.A.

TRAKCJA PRKiI S.A.

MANAGEMENT REPORT

ON THE ACTIVITIES OF TRAKCJA PRKiI S.A.

IN 2016

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 2016 was prepared pursuant to Articles 91 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information to be published by issuers of securities and on conditions of recognition of information required under non-member state law regulations as equivalent (Journal of Laws 2014, item 133).

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Any 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 in this report originates from the financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union, published and applicable as at 31 December 2016. We would also like to emphasize forward-looking statements (e.g. may, will, expect, assess, estimate), because they are based on certain assumptions subject to risk and uncertainty. Therefore, the Company shall not liable for such information.

1. KEY INFORMATION ON TRAKCJA PRKiI S.A.

1.1 INFORMATION ON TRAKCJA PRKiI S.A.

Trakcja PRKiI S.A. ("Company", "Issuer" and "Trakcja PRKiI") is one of the leading companies on the Polish railway and tramway infrastructure construction market.

The main subject of the Company's activity is comprehensive performance of works relating to a widely understood railway infrastructure with the use of a modern machine park. The Company specializes in providing engineering/construction services in the following scope: designing, construction and modernization of rail and tram lines, rail and tram electro-traction network, power generation lines, as well as construction of bridges, viaducts, piers, overpasses, tunnels, underpasses, retaining walls, roads and accompanying elements of rail and road infrastructure. In addition, Trakcja PRKiI may perform general construction works in the scope of preparing the building site, constructing and modernizing buildings, as well as building installations and finishing works. Our services also include the construction 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 modernised and also renovated railway power facilities.

Trakcja PRKiI modernised several thousand kilometres of railway lines and provided power to over 10,000 kilometres of railway lines. We have also constructed and modernised over 450 traction substations and 380 track section cabins.

The Company has been granted a licence to trade in liquid fuels, an open-ended railway transport licence and an open-ended licence to rent traction units.

The main attribute of Trakcja PRKiI is the ability to offer a comprehensive performance of projects using own potential in all sectors (rail works, engineering facilities, and overhead contact lines), possessed contracts portfolio, and:

- having at our disposal qualified management and client-oriented team;
- significant experience in professional performance and coordination of works executed in a timely manner according to highest European standards;
- possessing a modern machine park.

The Company has substantial competitive advantage over other companies, and the Company's position on the market of services relating to the railway infrastructure is grounded and stable.

The long-term market practice allowed the Company to develop techniques for managing projects, which in turn enabled the Company to complete the projects within the agreed schedules and simultaneously maintain the required quality and 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 Polish government. Their implementation requires the European procedures to be strictly complied with, which also has an effect on the quality of the services provided and products manufactured by the Company.

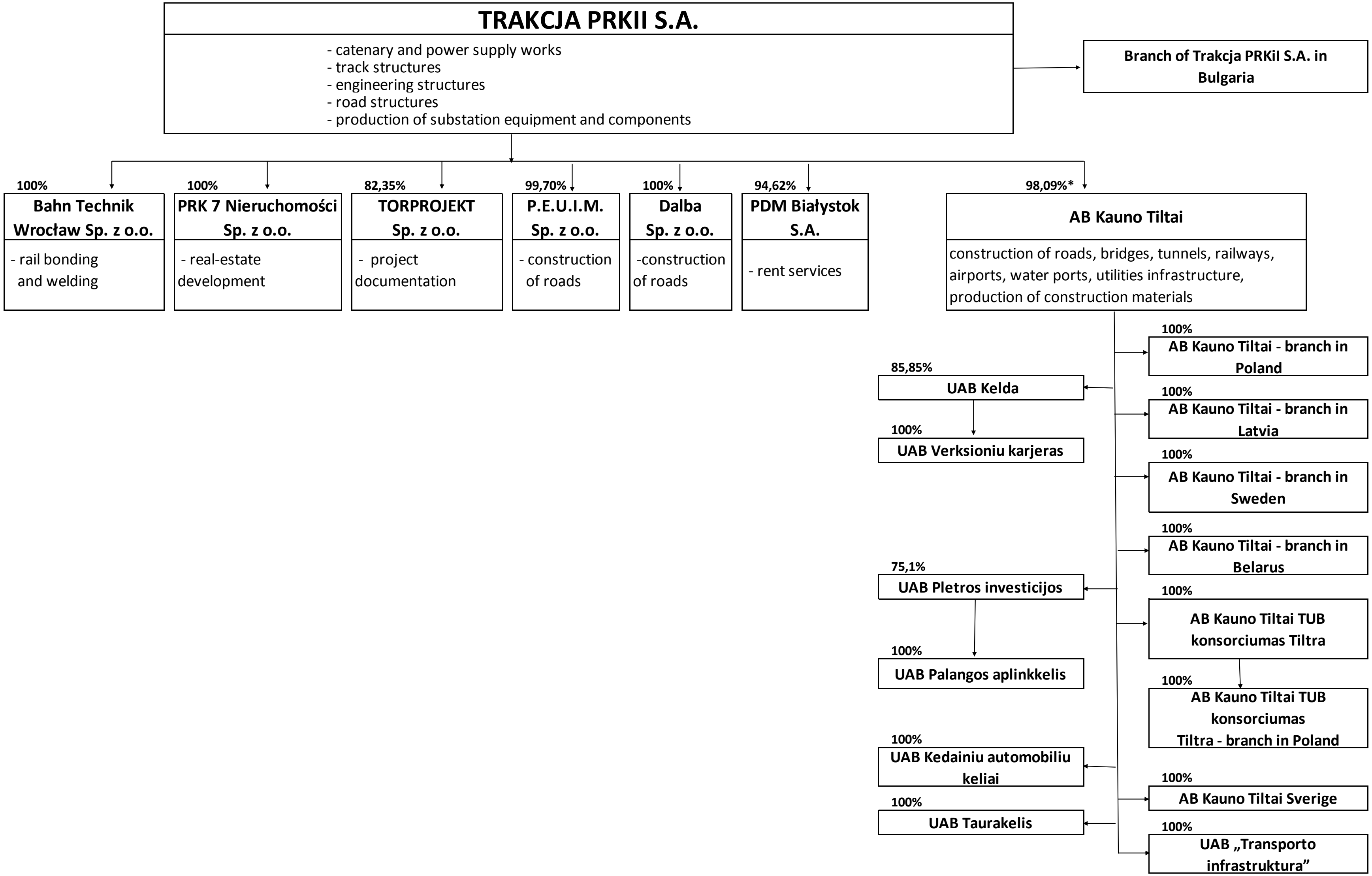
The Company has long-term experience in constructing and repairing roads in Poland. The Company performs comprehensive works as the renowned general contractor, both in cooperation with reliable subcontractors and independently using its own resources. In addition, the Company also perform specialised tasks that comprise resurfacing roads, constructing civil engineering structures, draining systems, lighting systems, sewage systems and infrastructure for pedestrians and cyclists. Trakcja Group owns a bitumen mixing plant which satisfies needs arising from the contracts performed and is a reliable source of materials for external customers.

Furthermore, the Company builds overhead line substations used for powering tramway, trolleybus and railway lines, and also as section cabins, and it equips them with switchboards produced by the Company itself.

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 31 December 2016 is presented in the diagram below.



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

Changes in the Trakcja Group structure

In the period from 1 January 2016 to 31 December 2016, the structure of Trakcja Group changed.

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

On September 20, 2014, AB Kauno Tiltai opened its branch in Sweden.

On December 30, 2016, Trakcja PRKiI purchased 50% of shares in Bahn Technik Wrocław Sp. z o. o. (BTW) from Leonhard Weiss International GmbH with its registered office in Göppingen. Since then the Company has had full control over BTW.

After the balance sheet date, on February 9, 2017, a subsidiary named ТРАКЦІЯ УКРАЇНА ("Trakcja Ukraina" Sp. z o.o.) was established in Dnipro (Ukraine). Its majority owner is PDM Białystok S.A. On March 3, 2017, Trakcja PRKiI S.A. opened its branch in Ukraine.

1.3 Employment structure

Average employment in the reporting period:

	For the period 12 months ended	
	31.12.2016	31.12.2015
	Audited	Audited
Average employment in the Company during the period:		
Management Board of Parent entity	5	5
Administration	126	130
Sales department	6	5
Production division	848	827
Other employees	1	5
Total	**986**	**972**

Employment as at:

	31.12.2016	31.12.2015
	Audited	Modified
Employment in the Company		
Management Board of Parent entity	3	5
Administration	130	123
Sales department	6	5
Production division	798	822
Other employees	-	2
Total	**937**	**957**

1.4 Changes in the basic principles for managing the Company

2016 was a year of further integration of departments and organisational units established after the merger of Trakcja and PRKiI.

This also applies to the Integrated Management System applicable in the Company, which comprises:

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

2016 was a year of further improvement in the management systems, also those resulting from changes in the environmental protection and occupational health and safety regulations.

The system documentation was amended, putting greater emphasis on control and supervision over the construction works performed.

At the turn of June and July 2015, an audit was performed by the TUV SUD auditors for the purpose of renewing the Integrated Management System certification. The audit was favourable. The Company was granted a certificate confirming that the aforementioned three systems function properly. The certificate is valid until 2018.

In 2016, the Company joined the group of companies consisting the Respect Index on the Warsaw Stock Exchange. In addition, the Company also developed its CSR strategy based on responsible leadership and management, social commitment, dialogue with shareholders and social innovation. Based on that strategy, the Company has implemented a new organisational culture. This should in effect ensure economic, social and environmental sustainability.

In the analysed period, the Company's restructuring process was also launched, which the Company announced in Current Report No. 22/2016. The Company’s Management Board believes that reduction in employment will result in the fixed costs being decreased significantly in the years to come (starting from 2017).

2. OPERATIONS OF TRAKCJA PRKiI

2.1 Basic products, goods and services

The modernisation of railway lines carried out by Trakcja PRKiI comprises:

- 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 mechanized substructure and track machinery, including the construction of the drainage system;
- disassembly of the traction network, including removal of old foundations and construction of a new traction network with the use of modern methods for positioning foundations by applying the piling method and with the use of trains for stream replacement of the network,
- renovation or complete alteration of civil engineering facilities: culverts, bridges, viaducts,
- construction of power supply systems for railway lines,
- comprehensive modernisation of railway crossings (crossings of roads with railway lines),
- alteration of the railway traffic control system,
- preparation of construction sites,
- construction of complete buildings or parts thereof,
- execution of construction installations, civil engineering works for tracks and roads,
- construction of overhead and underground power distribution lines,
- construction of railway and tram electric traction network and hydraulic engineering.

The Company's operations also consist in the construction of bridges, viaducts, piers, flyovers, tunnels, underground passings, roads and accompanying elements of rail and road infrastructure.

Moreover, where necessary, the Company cooperates with specialized companies mainly in the area of works related to the protection of railway traffic and telecommunications.

Within the framework of supplementary activities, we produce different types of industrial devices used for modernisation of rail infrastructure, including: 15 kV traction and mobile switchgear centres, 3 kV, 1,5 kV, 1 kV, 0,8 kV direct current switchgear centres, control cabinets, local and remote control devices, network isolating switches, steel constructions for the installation of substations and energetics, selected traction network equipment. In addition, the Company builds all the 110 kV HV lines, both overhead and cable ones, and MV lines, including 15 kV non-traction power lines for the railway infrastructure, along with transformer stations, as well as LV lines for lighting, fire protection, lightning protection, railway traffic control systems and passenger infrastructure, and also other safety systems.

As of 31 December 2016, the portfolio of construction contracts of Trakcja PRKiI was PLN 796 million (excluding the revenues allocated to consortium members). In 2016, the Company signed construction contracts with the total value of PLN 644 million (including the construction works allocated to consortium members). As of 31 December 2016, the contract portfolio of the Company provided for the full capacity utilisation in the next financial year. The participation in new tenders in 2017 will allow the Company to secure its contracts portfolio for future periods to an even greater extent.

The largest contracts completed by the Company in 2016 are presented in the table below.

No.	Name of contract	Contract value (mPLN)	Work types
1.	Modernization of the railway line E30 / C-E30 on the section Kraków – Rzeszów, stage III (Podłęże - Bochnia)	625	rail works
2.	Modernization of the railway line E59 on the section Wrocław – Poznań, stage II - section Wrocław - Dolnośląskie voivodeship)	535	rail works
3.	Modernization of the railway line E30 / C-E30 on the section Kraków – Rzeszów, stage III (Dębica - Sędziszów Małopolski)	417	rail works
4.	Development of execution projects and execution of works for Warszawa Okęcie (railway line No. 8)	360	rail works
5.	Modernization of the railway line on the section Warszawa - Łódź, II stage, (Łódź Widzew - Łódź Fabryczna)	345	rail works
6.	Modernization of the railway line E30 / C-E30 on the section Kraków – Rzeszów, stage III (Sędziszów Małopolski – Rzeszów Zachodni)	303	rail works
7.	Modernization of the railway line E30 on the section Jaworzno Szczakowa - Trzebinia	296	rail works
8.	Design and construction of the expressway S-5, Szubin-Jaroszewo	286	road works
9.	Modernization of the E59 railway line on the section Wrocław - Poznań, stage III (Czempiń - Poznań)	156	road works

2.2 Sales structure

The sales structure by type of works, production, and other activity is presented in the table below:

(data in ths. PLN)

	2016		2015	
	value	%	value	%
Railway works	715 350	86,6%	694 719	91,0%
Road works	45 704	5,5%	20 129	2,6%
Bridge works	21 370	2,6%	478	0,1%
Tramway works	5 133	0,6%	26 625	3,5%
Energy works	26 054	3,2%	-	0,0%
Production	8 136	1,0%	6 895	0,9%
Other areas of activity	4 451	0,5%	14 553	1,9%
Total revenues from sales	**826 198**	**100,0%**	**763 399**	**100,0%**

2.3 Markets and sourcing

In 2016, the Company rendered its construction and installation services on the domestic market.

The Company's main customer is PKP Polskie Linie Kolejowe S.A. (“PKP PLK S.A.”). The Company’s customer structure demonstrates that Trakcja PRKiI continues to be greatly dependent on PKP PLK S.A., whose direct share in the Company's revenues from sales was approx. 78.9% in 2016. Since the establishment of Trakcja PRKiI, PKP PLK S.A. has been the major customer in the structure of its customers. PKP PLK S.A. is not officially related with the Issuer. The second biggest customer of Trakcja PRKiI is Szybka Kolej Miejska Sp. z o.o. With its registered office in Warsaw, whose share in the Company’s revenues was approx. 4.9% in 2016.

The supplier structure in the analysed period demonstrates that Trakcja PRKiI is not strongly dependent on any contractor. In 2016, no event was reported in which a single supplier’s share exceeded 10% of the Issuer’s purchases of materials and services.

The Company opened an establishment in Bulgaria (Sofia). The Company finds the Balkan market is very attractive, and therefore it participates in tenders for railway infrastructure modernisation.

2.4 Important events and achievements of Trakcja PRKiI with significant effect on operations

The main influence on the financial results generated in 2016 and in subsequent years will come from long-term contracts for construction services executed by the Company. Main contracts executed in 2016 are presented in Section 2.1 hereof. Information regarding major contracts for construction services concluded in 2016 is provided in Section 2.5 hereof. Significant events after the balance sheet date are presented in Section 5.7 hereof.

2.5 Agreements significant to the Company’s operations

2.5.1 Key contracts for construction services

Key contracts for construction services concluded by the Company in 2016 (contract amounts include the construction works allocated to consortium members):

No.	Name of contract	Contract value (m PLN)	Work types
1.	Modernization of the E 30 railway line, section Jaworzno Szczakowa - Trzebinia	296	rail works
2.	Design and execution of construction works at the Włoszczowa Północ station	57	rail works
3.	Works on the railway line No. 201, section Nowa Wieś Wielka - Maksymilianowo	55	rail works
4.	Expansion of 957 provincial road Krowiarki - Nowy Targ, preparation of design documentation and execution of works	20	road works
5.	Design and execution of construction works, IZ Olsztyn border - Olsztyn station	19	rail works
6.	Works on the railway line No. 66, section Zwierzyniec - Stalowa Wola Południe	19	rail works
7.	Modernization of 16 engineering facilities on railway line No. 4 - Biała Rawska - Strzałki	19	rail works
8.	Zatora Bypass - design and execution of construction works	13	road works
9.	Repair of track No. 2 railway line 47 Warszawa Śródmieście WKD - Komorów WKD	13	rail works
10.	Works on the railway line No. 951 Tarnowskie Góry TGA - Tarnowskie Góry TGE, No. 149 Zabrze Makoszowy-Leszczyny, No. 168 Gliwice - Gliwice Łabędy, No. 151 Kedzierzyn Koźle - Chałupki	12	rail works
11.	Other contracts	121	different
	TOTAL	**644**	

2.5.2 Insurance contracts

The Company has standard insurance policies, with a cover for movable property in the event of damage, as well a civil liability insurance towards third parties in connection with conducted business activity and possessed property, as well as construction risk insurance.

Moreover, the Company has standard insurance policies covering civil liability of members of the Company's bodies. The aforementioned insurance contracts have been concluded with the following insurers: 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. and InterRisk Towarzystwo Ubezpieczeń S.A.

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

2.5.3 Collaboration and cooperation agreements

The Company concluded framework agreements on cooperation regarding financial market transactions with mBank S.A., Alior Bank S.A. and Bank Pekao S.A. The subjects of those agreements cover the rules for cooperation in the scope of entering into financial market transactions between the Company and the banks. Trakcja PRKiI and mFaktoring S.A. have concluded the recourse factoring agreement for an indefinite period of time.

2.6 Major deposits and capital investments

2.6.1 Investments of material nature

The Company's CAPEX in 2016 was PLN 32,357 thousand.

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	-	183
Total	**14 371**	**17 986**	**32 357**

Key development projects included the capital expenditure on new equipment resources in Bieńkowice, the purchase of 09-32 CSM tamping machine (under a leaseback agreement) and the acceptance for use of the PUN resurfacing train.

Key replacement projects consisted in the replacement of machinery (in particular, a Liebherr A900 excavator and a CAT D4K2 dozer) and hardware.

Key modernisation projects include expenditure on modernisation of traction posts.

The Company's CAPEX for 2017 is expected to be approx. PLN 24,650 thousand. It is planned that the future projects will be financed, as follows:

Cash	17 398
Financial leasing	7 252
Total	**24 650**

Until the publication hereof, the Company has signed new finance lease agreements. In the Company's Management Board opinion, the Company is able to complete future projects using its own funds generated from the core operating activities and making finance lease transactions.

2.6.2 Capital investments of the Company, including capital investments outside of the group, and description of financing method

In 2016, the Company made capital investments.

The largest capital investment covered the acquisition of 50% of shares (4,000) in BTW with a nominal value of PLN 500 each share, for the total price of PLN 21,500 thousand. Trakcja PRKiI had so far had 50% of shares in BTW. Under the agreement concluded, the Company has become the sole shareholder in BTW. The transaction is described in detail in Note 24 of the financial statements for 2016.

2.7 Strategy and directions of the Company's development

The Company endeavours to increase the scale of its operations, financial strength and contracting capacity on an annual basis and to become the leading construction and installation service provider on the Polish railway market.

In 2017, the Management Board of Trakcja PRKiI plans to continue activities aiming at further improvement in the Company's performance, and meet the following strategic prerequisites:

- development through organic growth;
- implementation of the contract-orientated organisational structure;

- increasing effectiveness and efficiency through a better organization of works, better use of synergy, and incentive systems;
- improvement of the management of cash flow and decreasing the balance of debt;
- more extensive use of own resources during the completion of contracts; and
- selective choice of contracts for execution within the consortium formula.

Key success factors include incentive systems that encourage employees to seek further improvements in the operating activities and close cooperation between teams whose members are employees of various organisational units.

Strengthening of the position of the Polish railway market of construction and installation services

In 2017 and subsequent years, Trakcja PRKiI plans to focus its operations on the Polish railway market of construction and installation services and to strengthen its market position.

This objective can be achieved thanks to 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.

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

Strengthening of the Company's position on other markets

Trakcja PRKiI takes measures that aim at strengthening its position in the tramway segment of the construction and installation service market by acquiring new contracts. Trakcja PRKiI also operates on the power supply and road markets.

The Company opened an establishment in Bulgaria (Sofia). The Company finds the Balkan market is very attractive, and therefore it participates in tenders for railway infrastructure modernisation.

In addition, in March 2017, the Company obtained a VOB certificate which is required from companies willing to participate in tenders on the territory of Germany. Due to a common recognition in the industry, the VOB construction certificate is frequently required by private customers. The VOB construction certificate gives the Company a much better starting position in the process of industry-based certification which provides access to the very attractive German energy market.

Diversification of the Company's operations

In order to diversify its activities, the Company commenced operating on the energy market through the construction all the 110 kV HV lines, both overhead and cable ones, and MV lines, including 15 kV non-traction power lines for the railway infrastructure, along with transformer stations, as well as LV lines for lighting, fire protection, lightning protection, railway traffic control systems and passenger infrastructure, and also other safety systems.

2.8 Prospects for development

The Management Board has a positive view on the Company's potential for growth in 2017 and subsequent years. As of 31 December 2016, the portfolio of construction contracts of Trakcja PRKiI was PLN 796 million.

Trakcja PRKiI has been continuously developing its competences in various infrastructure construction sectors. The Company actively participates in the implementation of the railway projects planned for the years to come. According to the National Railway Programme adopted by the Council of Ministers on 23 November 2016, the railway projects are expected to exceed PLN 60 billion by 2023. The Company also plans to bid on road contracts. The projects under the National Road Construction Programme and the project implemented by local road infrastructure managers are expected to be PLN 107 billion. In order to secure future contracts, the Company established a network of regional road offices in 4 locations around the country The Company's plans also involve the expansion on the energy market, and in particular in the area of the construction and modernisation of transmission lines and power distribution.

2.9 Description of external and internal factors significant for the Company's development

Key factors, which in the opinion of the Issuer's Management Board have or will have in the nearest future impact on the Company's activities, have been presented below. Information on significant proceedings and disputes against companies in the Company as well as penalties is presented in Section 5.6 hereof.

The most important external factors substantially affecting the Company's financial performance include:

- The level of expenses on rail and road infrastructure in Poland.
- The efficiency in opening and concluding contracts by the contracting entities.
- Competition of other entities.
- Absence of market barriers.
- Formation of prices of raw materials and construction materials.
- Influence of the Central Bank's monetary policy on the change of interest rate on credits.
- Timeliness in repayment of liabilities by recipients.
- Changes in law regulations establishing the scope of the Company's activity, including tax regulations as well as provisions on other public charges.

The most important internal factors substantially affecting the Company's financial performance include:

- The accuracy of estimating the costs of implemented projects as it exerts direct impact on decisions regarding the strategy of participating in tenders, the valuation of contracts for tenders and as a result the margins generated on the contracts.
- Ability to acquire new construction contracts.
- Ability to execute the development strategy of the Company.

2.10 Description of major risk factors and threats, specifying the extent of the Issuer’s exposure

Within the scope of conducted activity, Trakcja PRKiI is exposed to various types of risks, which may be divided into below groups:

- Industry risk;
- Contract execution risk;
- Financial risk.

Industry risk

In terms of this risk, the Company is exposed to a risk relating to intensifying competition. The market of railway and road construction, where the Company conducts its business activities is attractive due to expected significant investment outlays. Barriers of entry to the Polish railway construction market are not high, therefore the number of new participants therein is continuously increasing. Moreover, a significant factor affecting the market position of the Company are the financial plans of Polish governments concerning the modernization of infrastructure.

This industry risk may have substantial influence on the Company's development perspectives and its financial situation. A competitive advantage of Trakcja PRKiI is over seventy years of market experience, which allowed developing high-quality systems of executing purchase orders of highly valued partners. The main attribute of the Company is the possibility of comprehensive performance of investments using own potential in all sectors (rail works, engineering facilities, and overhead contact lines), possessed contracts portfolio, and:

- having at our disposal qualified management and client-oriented team;
- significant experience in professional performance and coordination of works executed in a timely manner according to highest European standards;
- possessing a modern machine park.

The Company has substantial competitive advantage over other companies, and the Company's position on the market of services relating to the railway infrastructure is grounded and stable. The aforementioned strengths of the Company minimize the risk relating to intensifying competition.

Contract execution risk

An inseparable risk relating to the operations of the Company is the contract execution risk. This risk may be affected mainly by the following factors: failure to obtain in due time the administrative decisions provided for, amongst others, in the provisions of the Building Law, the Administrative Procedure Code and the Environmental Protection Law; changes in prices of materials and raw materials; changes of prices for services provided by subcontractors; subcontractors' failure to complete, or delays in completion of works essential to commence project execution; underestimation of costs; potential penalties for infringing contracts; unfavourable weather conditions. The risk of underestimating contract costs may occur in case of works, which are difficult to identify at the stage of preparing the Company's bid and essential to perform the contract, and the price for the works. Within the scope of performing construction contracts, the Company concludes agreements with subcontractors usually later than the agreement with the investor, which may cause a risk that the adopted price of the service provided for the Company by subcontractors will be higher than the price adopted at the stage of contract valuation and signing. Prices stated in contracts with investors are fixed and cannot be changed during the term of the contract. The Company incurs the risk of a failure to meet the deadlines for the performance of the subject of concluded construction contracts, as well as performance of guarantee works relating to removal of defects and faults, which, in consequence, is related with the right of the investor to take advantage of the aforementioned collateral or claiming contractual penalties. The Company cannot exclude a risk relating to possible disputes concerning improper or untimely performance of contracts. Occurrence of aforementioned factors may adversely affect the Company's financial performance.

The Company's Management Board undertakes relevant actions aiming at minimizing these risks e.g. through implementation of a modern contract management system, which allows managing budgets and schedules of many large projects executed at the same time, based on detailed unit data registered in real time. In addition, the Company continuously monitors the prices of services provided by subcontractors and ensures that signed contracts have proper parameters concerning the term of the contract and the value of the contract adjusted to the market situation. Thanks to the initiative of implementing the system of central procurement for all realized projects and all organizational units of the infrastructure, the Company intends to achieve substantial and permanent cost savings and optimize procurement processes. Moreover, the long-term market practice allowed the Company to develop techniques for managing projects, which allow us to complete projects entrusted with the Company within the agreed schedules and simultaneously maintain the required quality and meet special requirements of the investors.

Financial risk

In terms of financial risk, the Company is exposed to a risk relating to financial contracts and a risk relating to liquidity. The risk relating to financial contracts results from the fact that both banks (in terms of credits and contract guarantees) as well as insurance companies (in terms of contract guarantees) may restrict the availability of sources of financing and other financial instruments, which may cause restrictions in contract performance. In 2016, Trakcja PRKiI significantly expanded the possibilities of obtaining sources of financing in terms of guarantee products. The Company monitors the capital structure using the financing structure indexes. Indexes analysed by the Company allow for the good credit rating to be maintained and confirm that the capital structure secures the operating activities of Trakcja PRKiI.

A significant factor in assessing the risk of insolvency is the generated level of operational cash flows, volume of cash, and the liquidity factor. The Company monitors the balance of available cash, and maintains a safe level of both external financing and financial liquidity. Any temporary cash surpluses were invested in short-term bank deposits. To avoid potential threats in the future and to minimize the risk relating to a loss of the Company's liquidity, long- and short-term analysis and forecasts are developed, which allow defining the Company's cash requirements. Thanks to these activities, inflows and expenses can be planned in advance and the optimum level of cash can be defined along with the manner of financing future expenditures.

Other factors, apart from the above-mentioned, which may cause fluctuations of prices of shares of Trakcja PRKiI S.A. include:

- Change in the Company's creditworthiness;
- Change in the Company's debt;
- Sale or purchase of assets by the Company;
- Significant changes in the Company's shareholdership;
- Changes made by capital market analysts with respect to their forecasts and recommendations regarding Trakcja PRKiI, its contracting parties, partners and sectors of economy, in which the Company is involved.

Combating the materialization of all these risks constitute the basic goal of activity of the Issuer's Management Board, which conducts discussions with ordering parties, consortium partners and subcontractors, banks and insurers. Managing these risks is performed at the highest management level in the Company.

3. ANALYSIS OF TRAKCJA PRKiI'S ASSETS AND FINANCIAL SITUATION

3.1 Company's financial performance in 2016

3.1.1 Overview of income statement

PROFIT AND LOSS ACCOUNT	01.01.2016 - 31.12.2016 Audited	01.01.2015 - 31.12.2015 Audited	Change	Change %
Sales revenues	826 198	763 399	62 799	8%
Cost of goods sold	(787 275)	(700 208)	(87 067)	12%
Gross profit on sales	**38 923**	**63 191**	**(24 268)**	**-38%**
Cost of sales, marketing and distribution	(2 132)	(1 718)	(414)	24%
General and administrative costs	(25 275)	(33 332)	8 057	-24%
Other operating revenues	3 548	3 622	(74)	-2%
Other operating costs	(5 350)	(1 669)	(3 681)	221%
Operating profit	**9 714**	**30 094**	**(20 380)**	**-68%**
Financial revenues	25 945	18 650	7 295	39%
Financial costs	(5 929)	(7 106)	1 177	-17%
Gross profit	**29 729**	**41 638**	**(11 909)**	**-29%**
Income tax	(1 031)	(6 477)	5 446	-84%
Net profit for the period	**28 699**	**35 161**	**(6 462)**	**-18%**

In 2016, Trakcja PRKiI generated revenues in the amount of PLN 826,198 thousand, which is an increase by 8% in comparison with the analogous period of the preceding year. In the analysed period, own cost of sales increased by 12% and amounted to PLN 787,275 thousand. In the said period, a gross margin on sales amounted to 4.7%, and in the analogous period of 2015 it reached 8.3%. The decrease in the gross margin on sales in 2016 results from the fact that the higher number of bidders on the market (higher competitiveness) has led to a squeeze on margins. In 2016, a gross profit was PLN 38,923 thousand.

In 2016, overheads decreased by PLN 8,057, which is a decrease by 24% as compared to the preceding year. The foregoing results mainly from the fact that overheads incurred in 2015 included one-off benefits for the former Management Board members (compensations, non-competition benefits and compensatory payments for annual leave) in the amount of PLN 6,415 thousand. In addition, the Company implemented the cost reduction programme, and in particular: reduced the costs of external services, including the costs of legal, tax and other advisory services by PLN 1,020 thousand. In the analysed period, a new construction contract-orientated organisational structure has been launched. Selling, marketing and distribution costs were PLN 2,132 thousand in the analysed period.

The balance of other operating activities decreased in relation to that in the comparable period by PLN 3,755 thousand. The difference was mainly caused by the recognition of the restructuring costs in the amount of PLN 3,905 thousand.

In 2016, a profit on operating activities was PLN 9,714 thousand, while in the preceding year it was PLN 30,094 thousand.

In 2016, the Company's financial revenues were PLN 25,945 thousand, i.e. by 39% higher than those generated in the preceding year, as the revenues from dividends were in that year higher by PLN 9,300 thousand. In the analysed period, financial expenses decreased by 17%, i.e. By PLN 1,177 thousand as compared to the previous year, which resulted from a decrease in interest on bonds that in turn was caused by their total repayment in 2015.

In the analysed period, the Company's gross profit was PLN 29,729 thousand, whereas in the preceding year it was PLN 41,639 thousand.

The Company's net profit for 2016 was PLN 28,699 thousand and its net profit margin was 3.5% (4.6% in 2015).

3.1.2 Overview of balance sheet items

The following table presents main items of the balance sheet of Trakcja PRKiI as at 31 December 2016 and as at 31 December 2015:

ASSETS	31.12.2016 Audited	31.12.2015 Modified	Change	Change %
Non-current assets	**657 078**	**619 661**	**37 417**	**6,0%**
Tangible non-current assets	134 895	117 408	17 487	15%
Intangible assets	54 276	55 567	(1 291)	-2%
Investment properties	17 174	17 602	(428)	-2%
Invetments in subsidiares	436 241	412 572	23 669	6%
Invetments in entities accounted using equity method	-	2 008	(2 008)	-100%
Other financial assets	4 734	4 671	63	1%
Deferred tax assets	7 483	6 587	896	14%
Prepayments and accruals	2 275	3 246	(971)	-30%
Current assets	**356 980**	**299 500**	**57 480**	**19%**
Inventory	30 400	31 283	(883)	-3%
Trade and other receivables	281 302	101 581	179 721	177%
Other financial assets	5 836	11 828	(5 992)	-51%
Cash and cash equivalents	18 820	136 025	(117 205)	-86%
Prepayments and accruals	3 981	7 206	(3 225)	-45%
Construction contracts	13 579	8 515	5 064	59%
Asets held for sale	3 062	3 062	-	0%
Total assets	**1 014 058**	**919 161**	**94 897**	**10%**

As at 31 December 2016, the balance sheet total of Trakcja PRKiI was PLN 1,014,058 thousand and was greater by PLN 94,897 thousand than that as at the end of 2015, which is an increase by 10%.

Fixed assets were PLN 657,078 thousand, which is an increase by PLN 37,417 thousand as compared to the preceding year. The increase was mainly caused by an investment in subsidiaries which consisted in the acquisition of 50% of shares in Bahn Technik Wrocław Sp. z o.o.

As at 31 December 2016, current assets were PLN 356,980 thousand PLN, i.e. they increased by PLN 57,480 thousand (19%) in comparison with their balance as at 31 December 2015. The largest changes in current assets resulted from changes in trade receivables and other receivables, which increased by 177% up to PLN 281,302 thousand. In the analysed period, cash decreased by PLN 117,205 thousand down to PLN 18,820 thousand. The increase in receivables and decrease in cash as at 31 December 2016 as compared to 31 December 2015 was partially caused by the fact that PKP PLK paid a significant portion of its liabilities towards the Company at the end of 2015, and therefore the opening balance thereof was very low at the beginning of 2016.

LIABILITIES	31.12.2016 Audited	31.12.2015 Modified	Change	Change %
Equity	**625 311**	**613 327**	**11 984**	**2%**
Share capital	41 120	41 120	-	0%
Share premium account	309 984	309 984	-	0%
Revaluation reserve	5 800	6 295	(495)	-8%
Other capital reserves	239 717	220 767	18 950	9%
Retained earnings	28 699	35 161	(6 462)	-18%
Total liabilities	**388 746**	**305 834**	**82 912**	**27%**
Long-term liabilities	**80 736**	**47 399**	**33 337**	**70%**
Interest-bearing bank loans and borrowings	54 759	33 340	21 419	64%
Provisions	17 577	4 690	12 887	275%
Liabilities due to employee benefits	8 400	9 369	(969)	-10%
Short-term liabilities	**308 011**	**258 435**	**49 576**	**19%**
Interest-bearing bank loans and borrowings	16 249	9 651	6 598	68%
Trade and other liabilities	245 053	182 398	62 655	34%
Provisions	19 722	6 189	13 533	219%
Liabilities due to employee benefits	7 200	6 722	478	7%
Income tax liabilities	2 095	3 362	(1 267)	-38%
Other financial liabilities	-	148	(148)	-100%
Accruals	258	150	108	72%
Construction contracts	17 434	49 815	(32 381)	-65%
Total equity and liabilities	**1 014 058**	**919 161**	**94 897**	**10%**

As at 31 December 2016, the Company's equity increased by PLN 11,984 thousand, i.e. by 2% as compared to the balance as at 31 December 2015. The increase resulted from the allocation to the reserve capital of the profit for 2015 in the amount of PLN 17,685 thousand, which reflects the payment of dividends in the amount of PLN 17 476 and a net profit for 2016 lower than in 2015 by PLN 6,462 thousand.

As at 31 December 2016, the long-term liabilities were PLN 80,736 thousand and increased by 70% in comparison with their balance as at the end of 2015. The largest increase was in the loans and credits, as the Company incurred an investment loan for the acquisition of shares in Bahn Technik Wrocław Sp. z o.o. and recognised new provisions for additional works.

As at 31 December 2016, short-term liabilities were PLN 308,011 thousand PLN and they increased by PLN 49,576 thousand, i.e. by 19% in comparison with their balance as at the end of the preceding year. The increase in short-term liabilities was caused mainly by trade liabilities and other liabilities, which increased by PLN 62,655 thousand.

3.1.3 Overview of the statement of cash flows

The main items of the Company's statement of cash flows for years ended 31 December 2016 and 31 December 2015 are presented in the table below.

CASH FLOW ACCOUNT	01.01.2016 - 31.12.2016 Audited	01.01.2015 - 31.12.2015 Audited	Change	Change %
Cash at start of period	**136 025**	**14 113**	**121 912**	**864%**
Net cash flows from operating activities	(94 093)	206 799	(300 892)	-145%
Net cash flows from investment activities	(12 228)	7 411	(19 639)	-265%
Net cash flows from financial activities	(10 884)	(92 298)	81 414	-88%
Total net cash flows	**(117 205)**	**121 912**	**(239 117)**	**-196%**
Cash at end of period	**18 820**	**136 025**	**(117 205)**	**-86%**

At the beginning of 2016, the Company's cash was PLN 136,025 thousand, while at the end of the analysed period it was PLN 18,820 thousand. The foregoing was mainly caused by the payment of a significant amount of receivables by PKP PLK at the end of 2015, which did not occur at the end of 2016. The absence of such a one-off event in 2016 did not have any adverse impact on the Company's financial condition, and as such did not present any risk to the Company's operations.

The total net cash flows in the discussed period were negative and amounted to PLN 117,205 thousand.

In 2016, the net cash flow balance from operating activities was negative and amounted to PLN 94,093 thousand. The balance decreased in relation to the analogous period of the preceding year by PLN 300,892 thousand.

In 2016, the net cash flows from investing activities were negative and amounted to PLN 12,228 thousand, whereas in the comparable period of 2015 the negative balance thereof was PLN 7,411 thousand. The negative balance of the net cash flows from investing activities in 2016 was caused by the acquisition of additional 50% of shares in BTW for PLN 21,500 thousand.

The net cash flows from financial activities in 2016 were negative and amounted to PLN 10,884 thousand. The aforementioned amount stemmed from the distribution of dividends to shareholders and the loan granted to the Company for the acquisition of shares in BTW.

3.2 Financial ratios of Trakcja PRKiI

3.2.1 Profitability ratios

In 2016, the gross margin on sales decreased to 4.71% as compared to 8.28% in the preceding year. The operating earnings before depreciation and amortisation decreased by PLN 18,981 thousand to PLN 21 911 thousand, and the EBITDA margin decreased by 2.71 pp to 2.65%. The operating profit margin decreased by 2.76 pp and reached the level of 1.18%. The net profit margin was 3.47%.

The return on equity (ROE) was 4.63%. The return on assets (ROA) was 2.97% and decreased by 0.54 pp as compared to the preceding year.

PROFITABILITY RATIOS	31.12.2016 Audited	31.12.2015 Modified	Change
Gross sales profit margin	4,71%	8,28%	-3,57%
EBITDA	21 911	40 892	(18 981)
EBITDA profit margin	2,65%	5,36%	-2,71%
Operating profit margin	1,18%	3,94%	-2,76%
Net profit margin	3,47%	4,61%	-1,14%
Return on equity (ROE)	4,63%	6,13%	-1,50%
Return on assets (ROA)	2,97%	3,51%	-0,54%

The above ratios have been calculated in accordance with the following formulas:
Gross profit margin on sales = gross profit on sales / revenue on sales
EBITDA = operating profit + depreciation and amortisation
EBITDA margin = (operating profit + depreciation and amortisation) / revenue from sales
Operating profit margin = operating profit / revenue on sales
Net profit margin = net profit / revenue on sales
Return on equity (ROE) = net profit / average equity
Return on assets (ROA) = net profit / average assets

3.2.2 Liquidity ratios

As at 31 December 2016, the Company's working capital was PLN 49,228 thousand and at the end of 2015 was PLN 41,215 thousand.

At the end of 2016, the current ratio was 1.16. The quick ratio was 1.06. The cash ratio was 0.06 in 2016 and 0.53 in 2015. The quick ratio and the current ratio were at the same level a year ago.

LIQUIDITY RATIONS	31.12.2016 Audited	31.12.2015 Modified	Change
Working capital	49 228	41 215	8 013
Current ratio	1,16	1,16	-
Quick ratio	1,06	1,04	0,02
Cash ratio	0,06	0,53	(0,47)

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 Financing structure ratios

The Company monitors the capital structure using the financing structure indexes. Indexes analysed by the Company, presented in the below table, allow maintaining both good credit rating and confirm the capital structure support for the operational business of the Company.

The financing structure ratios changed insignificantly due to the aforementioned events.

As at 31 December 2016, the equity to assets ratio was 0.62 and decreased as compared to the preceding year. The equity to fixed assets ratio decreased from 0.99 as at the end of 2015 to 0.95 as at 31 December 2016. At the end of 2016, the total debt ratio was 0.38. The debt to equity ratio increased from 0.50 as at the end of 2015 to 0.62 at the end of 2016.

FINANCING STRUCTURE RATIOS	31.12.2016 Audited	31.12.2015 Modified	Change
Equity to assets ratio	0,62	0,67	-0,05
Equity to non-current assets ratio	0,95	0,99	-0,04
Debt ratio	0,38	0,33	0,05
Debt to equity ratio	0,62	0,50	0,12

The above ratios have been calculated in accordance with the following formulas:

Equity to assets ratio = equity / total assets

Equity to non-current assets ratio = equity / non-current assets

Debt ratio = (total assets - equity) / total assets

Debt to equity ratio = (total assets - equity) / equity

3.3 Assessment of financial resources management

At the end of 2016, the Company's cash and cash equivalents were PLN 18,020 thousand and total liabilities from loans, credits and financial lease were PLN 71,008 thousand. The Company maintains a safe level of both external financing and financial liquidity. Any temporary cash surpluses were invested in short-term bank deposits.

As at 31 December 2016, the Company had at its disposal a credit limit in the current account and revolving credits up to the total value of PLN 90 million, which guarantees the Company a stable level of financing for current contracting activity. In addition, the Company has a factoring limit granted in the amount of PLN 50,000 thousand.

The Company conducts extensive cooperation with banks and insurance institutions in order to ensure relevant level of financing and bank/insurance guarantees allowing execution of planned construction contracts.

The Company takes advantage of many offered bank products and various sources of financing (credit limits in current account, revolving loans, investment loans, credits, factoring, financial lease) to minimize financial costs and optimize financial liquidity management.

3.4 Evaluation of factors and unusual events affecting the financial performance of Trakcja PRKiI S.A. in 2016

In 2016, significant factors and particular events occurred, which had an effect on the financial performance of Trakcja PRKiI.

Optimisation of the organisational structure of Trakcja PRKiI

With major delay in the financial prospects for 2014-2020 as far as tenders announced on the infrastructural market, mostly railway infrastructure market, having carefully analysed all the business and social aspects, the Company's Management Board decided to optimise the Company's organisational structure in a way that as a result will lead to job losses pursuant to Article 2 para. 3 and 4 of the Act on Specific Rules for Terminating Employment Relationships with Employees for Reasons Beyond the Employees' Control of 13 March 2003 (Journal of Laws of 2003, No. 90, item 844, as amended). On 22 September 2016, the Company's Management Board announced the Regulations on Collective Redundancies and provided the trade unions that operate in the Company with the relevant information. Information thereabout was also submitted to the competent County Labour Office. The employment contract will be terminated with the group of employees that comprises 300 people in total from 23 September 2016 to 30 June 2017.

The total of the provision established and the expense incurred, which was charged to the Company's profit for 2016, was PLN 3.9 million. The provision will be reversed by 30 June 2017.

The Company's Management Board believes that reduction in employment will result in the fixed costs being decreased significantly in the years to come (starting from 2017). A specific amount of savings can only be estimated after the optimisation process is completed. The Management Board will monitor the construction market and actively react to any changes therein.

As at 31 December 2016, the restructuring process affected 112 people and its total cost was PLN 2.1 million.

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

Based on the analyses conducted, the Company's Management Board believes that Trakcja PRKiI is able to finance current and future investment projects specified in Note 2.6.1 hereof with the funds generated from its operating activities and the debt incurred for that purpose.

3.6 Hedging transactions

In 2016, the Company's operations were not considerably exposed to a currency risk. All the contracts completed in 2016 were expressed in PLN. In the reporting period, the Company did not have any derivative contracts. In the reporting periods covered hereby, the Company did not apply hedge accounting.

3.7 The 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 2016.

4. SHARES AND OWNERSHIP STRUCTURE OF TRAKCJA PRKiI

4.1 Shareholding structure

As at 31 December 2016 and as at the publication hereof, the Company's share capital, as entered in the National Court Register, amounted to PLN 41,119,638,40 and was divided into 51,399,548 A-series ordinary bearer shares with nominal value of PLN 0.80 each. Each share entitles to one vote at the Company's General Meeting.

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

	31.12.2016 Audited	31.12.2015 Modified
	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 knowledge of the Issuer's Management Board, in accordance with the received notifications referred to in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, the shareholders that hold directly or through the subsidiaries, at least 5% of the total number of votes at the Annual General Meeting, as at the release hereof, are as follows:

Shareholders	Number of shares	% in the share capital	Number of votes	% in votes at GSM
COMSA S.A.	15 843 193	30,82%	15 843 193	30,82%
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	26 094 797	50,77%	26 094 797	50,77%
Total	**51 399 548**	**100,00%**	**51 399 548**	**100,00%**

From the date of publication of the interim report, i.e. 10 November 2016, no changes in the ownership structure of the Issuer's qualifying holdings occurred.

4.2 Number and nominal value of the Company's shares and interest in the Company's associates held by managing and supervising persons

To the knowledge of the Issuer's Management Board, as at the release hereof, the Management Board and Supervisory Board members do no hold any shares in Trakcja PRKiI.

As from the date of delivering the last periodical report, there were no changes in the percentage interest of shares of the Company by managing and supervising persons.

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

4.3 Agreements concerning potential changes in the shareholding structure

The Management Board has no information about concluded agreements which may result in future changes to the proportions of shares held by the current shareholders

4.4 Employee Share Scheme

In 2016, Trakcja PRKiI did not have any employee share schemes.

4.5 Purchase of own shares

In 2016, Trakcja PRKiI did not acquire own shares.

5. OTHER INFORMATION

5.1 Information about credit and loan agreements concluded and terminated in the financial year

A list of credits and loans granted to Trakcja PRKiI as at 31 December 2016 is presented in the following table:

Lender	Type of loan/credit	Amount in agreement 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	21 503
mBank S.A.	working capital loans	50 000	PLN	28.04.2017	WIBOR 1M + margin	-
mBank S.A.	overdraft	20 000	PLN	28.04.2017	WIBOR O/N + margin	-
Pekao S.A.	working capital loans	20 000	PLN	31.05.2017	WIBOR 1M + margin	-
mLeasing Sp. z o.o.	project purpose loans	22 400	PLN	16-09-2019	WIBOR 1M + margin	13 256
					TOTAL	**34 759**

The Company's liabilities arising from credits and loans incurred as at 31 December 2016 were PLN 34,759 thousand, of which the total amount was an investment loan.

Moreover, pursuant to the agreements signed, as at 31 December 2016, the Company had unused credit limits in the current account and revolving credits in the total amount of PLN 90 million (as at 31 December 2015: PLN 114 million). In addition, the Company has a factoring limit granted in the amount of PLN 50,000 thousand.

Credits and loans incurred in 2016

In the period covered hereby, Trakcja PRKiI signed the following credit or loan agreements:

- an agreement with mBank S.A. concerning an investment loan for PLN 21,500 thousand with a repayment date up to 30 September 2021 and interest rate of WIBOR 1M plus margin;

- an annex to the agreement concerning an overdraft up to PLN 20,000 thousand between the Company and mBank S.A. Pursuant to the annex, the term of financing was extended to 28 April 2017.

Credit and loan agreements expired in 2016

In 2016, the Company repaid and terminated the following agreements:

- on 3 July 2016, an agreement between the Parent company and PKO BP S.A. expired, which concerned a revolving loan in the amount of PLN 44,000 thousand with the interest rate of WIBOR 1M plus margin.

5.2 Information about loans granted during the financial year

The loans granted by the Company in 2016 are presented in the table below.

Borrower	Amount of loan (ths. PLN)	Currency	Maturity date	Interests	Amount left to be paid	Capital relationship
PRK 7 Nieruchomości Sp. z o.o.	9 500	PLN	31.03.2017	WIBOR 1 M + margin	3 215	subsidiary
TOTAL	**9 500**				**3 215**	

5.3 Information about granted and received sureties and guarantees

In 2016, the Company did not grant any sureties for credits or loans and did not grant any guarantees to one entity or a subsidiary of such entity, the total value of which would constitute an equivalent of at least 10% of the Issuer's equity.

In 2016, no sureties or guarantees were granted to the Company by any of the related parties.

5.4 Inflows from issue of securities

During the period covered by the report, Trakcja PRKiI did not issue any securities, thus it did not obtain any inflows from issue of securities.

5.5 Significant off-balance sheet items

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

	31.12.2016 Audited	31.12.2015 Modified
Contingent receivables		
From related entities due to:	**70 075**	**94 664**
Received guarantees and sureties	65 240	89 162
Bills of exchange received as collateral	4 835	5 502
Total contingent receivables	**70 075**	**94 664**
Contingent liabilities		
From related entities due to:	**-**	**809**
Provided guarantees and sureties	-	809
From other entities due to:	**2 002 238**	**2 269 160**
Provided guarantees and sureties	509 877	394 038
Promissory notes	547 720	439 152
Mortgages	99 000	99 000
Assignment of receivables	722 767	1 238 501
Assignment of rights under insurance policy	41 559	41 586
Security deposits	12 133	20 140
Other liabilities	69 183	36 743
Total contingent liabilities	**2 002 239**	**2 269 969**

Contingent receivables on account of provided guarantees and sureties include guarantees granted by banks, insurance companies or other entities in favour of the Company constituting a security of the Company's claims against an investor on account of the performed construction contracts.

Contingent liabilities on account of provided guarantees and sureties include above all guarantees granted by banks and insurance companies in favour of the Company constituting a security of their claims against the Company on account of the performed construction contracts. The banks are entitled to back claims against the companies of the Company. Promissory notes constitute another form of collateral of bank guarantees, as stipulated above.

After the balance sheet date and before the publication hereof, the Company concluded new agreements for tender bonds, guarantees of good performance and guarantees of reimbursement of advance payment in the total amount of PLN 133,778 thousand.

5.6 Significant court cases and disputes

The Company informs that the total value of the proceedings concerning the Company's claims is PLN 136,781,184.44 and the total value of the proceedings concerning the Company's liabilities is PLN 5,205,986.84.

As at December 31, 2016, the Company was a party to the proceedings, the value of which separately would be at least equivalent to 10% of the equity of Trakcja PRKiI S.A.:

The case concerning summons to a conciliatory settlement regarding reimbursement of fixed costs incurred in two extension periods for the performance of the contract filed against PKP PLK S.A. by the Consortium that comprises Trakcja PRKiI S.A. and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie sp. z o. o.

On December 2, 2016, the Company and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie sp. z o. o. applied for summons to a conciliatory settlement against PKP PLK S.A. for payment of PLN 65,848,167.00 in relation to the extension of the completion term of the contract named: "Design and performance of construction works on the railway line Krakow - Medyka - state border on the section Podłęże - Bochnia, km 16.000 - 39.000 of the Project "Modernization of the railway line E 30/C-E30, section Krakow - Rzeszow, phase 3". The Company's claims are estimated to be approx. PLN 25 million. The case is at the early stage of proceedings and its resolution date is difficult to predict.

Other proceedings concerning claims:

The case concerning claims against Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej in Warsaw (as of the commencement date of the proceedings, 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 a possibility of composition, Przedsiębiorstwo Robót Komunikacyjnych i Inżynieryjnych S.A. in Wrocław submitted a statement of claims of 20 November 2012 to the bankruptcy court. The statement covered claims in the total amount of PLN 55,664,100.89, including the principal amount and the interest due up to the bankruptcy announcement date, as well as the accrued contractual penalties.

According to the Company's knowledge, a list of claims towards PNI was prepared. Claims of Trakcja PRKiI S.A. were accepted in the amount of PLN 10,569,163.16, including PLN 10,274,533.87 due to unpaid invoices and PLN 294,632.29 due to interest for delay in payment. It was refused to accept receivables due to contractual penalties and other claims in the total amount of PLN 44 956 834.35. The Company did not agree with that refusal; therefore, an objection was submitted to the judge commissioner concerning the refusal in the aforementioned scope. The court had rejected the objection, therefore the Company filed a complaint which was overruled. On 8 June 2015, the Company received a notice from the trustee in bankruptcy on the change of bankruptcy procedure from arrangement bankruptcy to 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 10 March 2015, by the decision of the District Court of the City of Warsaw in Warsaw, Projekt-Bud Sp. z o.o. ("Bankrupt") with the possibility of an 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 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. In view of the above, as at the approval of these financial statements, the Company's claim against the Bankrupt is PLN 2,325,786.32 in consideration of the accrued contractual penalty.

The most significant proceedings concerning liabilities:

Case initiated by Eiffage Polska Koleje Sp. z o.o. with its registered office in Warsaw

Eiffage Polska Koleje Sp. z o.o. based in Warsaw filed on 15 May 2015 a suit for payment for the amount of PLN 1,634,833.00 against Trakcja PRKiI S.A., seeking remuneration for additional expenses incurred in the extended term of the contract. The Company filed its reply to the claim and now the case is pending. Its resolution date is difficult to predict.

5.7 Significant events after the balance sheet date

Significant events after the balance sheet date	CR
Significant agreements	
In 20.01.2017 Company signed as the Consortium leader the agreement with PKP PLK S.A. on design and realization of construction works - „Works on railway lines No. 140, 148, 157, 159, 173, 689, 691 on the section Chybie – Żory – Rybnik – Nędza / Turze" within the Operational Programme Infrastructure and Environment (POIiŚ) 5.2-5 net value 373,7 mPLN. The planned share of Trakcja PRKiI amounts to 124,5 mPLN (net value). The works will be realized within 30 months from the signning date.	2/2017
Other	
In 9.01.2017 The company has made public the deadlines for the publication of periodic reports in 2017.	1/2017
In 15.03.2017 due to the performance of impairment test of goodwill assigned to the cash generating unit, which consists 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., Management Board has decided to write-off the value of that asset in Trakcja Group's consolidated balance sheet in the amount of PLN 11 799 thousand which was recognized in the consolidated results of 2016.	3/2017

5.8 Transactions with affiliated parties

All transactions of the Issuer with its related parties were made at arm's length.

The detailed information about the transactions with related parties has been presented in Note 54 of the annual financial statements of Trakcja PRKiI S.A. for 2016.

5.9 Remuneration of the Management Board members and Supervisory Board members

The amounts of remuneration of the Company's Management Board members in 2016 are presented in the table below.

Management Board of the Parent Company		Parent company				Subsidiaries			
		Remunaration	Awards	Other benefits	Total	Remunaration	Awards	Other benefits	Total
Jarosław Tomaszewski	President of Management Board	840	450	21	**1 311**	262		-	**262**
Nerijus Eidukevičius	Vice-President of the Management Board to 8.09.2016	60	147	-	**207**	544	997	92	**1 632**
Paweł Nogalski	Vice-President of the Management Board	600	175	42	**817**	-	-	-	-
Marek Kacprzak	Vice-President of the Management Board	600	157	67	**824**	-	-	-	-
Sławomir Raczyński	Vice-President of the Management Board to 30.12.2016	600	164	19	**783**	-	-	-	-
Total		**2 700**	**1 093**	**149**	**3 942**	**806**	**997**	**92**	**1 894**

The amount of PLN 3,942 thousand was charged to the expenses of the Company and the remaining amount, i.e. PLN 1,894 thousand was charged to the costs of subsidiaries.

The amounts of remuneration of the Issuer's Supervisory Board members in 2016 are presented in the table below.

Supervisory Board of the Parent Company		Parent company				Subsidiaries			
		Remunaration	Awards	Other benefits	Total	Remunaration	Awards	Other benefits	Total
Dominik Radziwiłł		104	-	-	**104**	-	-	-	-
Andrzej Bartos	(to 16.06.2016)	33	-	-	**33**	-	-	-	-
Michał Hulbój		96	-	-	**96**	-	-	-	-
Wojciech Napiórkowski		96	-	-	**96**	-	-	-	-
Łukasz Rozdeiczer-Kryszkowski	(from 16.06.2016)	57	-	-	**57**	-	-	-	-
Miquel Llevat Vallespinosa		68	-	-	**68**	262	-	-	**262**
Jorge Miarnau Monserrat		56	-	-	**56**	-	-	-	-
Fernando Perea Samarra		68	-	-	**68**	-	-	-	-
Total		**578**	**-**	**-**	**578**	**262**	**-**	**-**	**262**

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5.10 Agreements concluded between the Company and management members

The Company and the Company's Management Board members have concluded employment contracts, which provide for:

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

or

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

Trakcja PRKiI and the Management Board members have concluded non-competition agreements, under which for a 1-year period from the termination of the employment relationship, a member shall be paid compensation:

- in the amount of 100% of the average monthly salary payable under the employment contract in the last year of employment at the Company, which shall be paid in three equal instalments;

or

- in the amount of 100% of the basic monthly salary payable under the employment contract in the last year of employment at the Company, this shall be paid in three equal instalments.

5.11 Important achievements in the area of research and development

In 2016, the Company took measures oriented at dealing with the issue of the Company's intellectual property, including patents. As a result thereof, two licence agreements have been concluded for the use of the Company's patents. The patents pertain to two licence agreements:

- with Polcynek, Fabryka Urządzeń Kolejowych and Termoprod for the use of patent no. 213109 Installation of Overhead Line Gates on Foundation Piles.
- with Fabryka Urządzeń Kolejowych and Termoprod for the rights to use the technical documentation (individual steel piles) that belongs to the Company.

5.12 Information about the entity acting as the certified auditor

Pursuant to a resolution of the Supervisory Board of Trakcja Group, the entity authorized to audit the financial statements of the Group and the Company is Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. based in Warsaw at Al. Jana Pawła II 22.

On 29 July 2016, the Company concluded an agreement with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for:

- a review the semi-annual separate and consolidated financial statements prepared as at 30 June 2016 according to the International Accounting Standards;
- an audit of the annual separate and consolidated financial statement prepared as at December 31, 2016 according to the International Accounting Standards.

The agreement was concluded for the period of performing the subject of the contract.

The amount of remuneration for the examination and review of the statements and other, is presented in the below table.

	For the period 12 months ended	
	31.12.2016	31.12.2015
	Audited	Modified
On account of agreement for financial statement audit	144	135
On account of agreement for financial statement review	72	68
Other certified services	5	5
Total	**221**	**208**

The fee for the audit of the selected entities of Trakcja Group is payable based on separate agreements concluded between the entity authorized to audit financial statements and each of the selected Group companies.

6. REPORT ON CORPORATE GOVERNANCE

6.1 Specification of the scope in which the Issuer has renounced to apply the provisions on corporate governance according to the Good Practices for Companies Listed on the Warsaw Stock Exchange 2016 applicable in accordance with resolution 1309/2015 form 1 January 2016 onwards, indication of those provisions and explanation of that renouncement

The Company undertook to observe the corporate governance recommendations and rules included in the document entitled Good Practices for Companies Listed on the Warsaw Stock Exchange 2016, save for the following recommendations and rules:

1. *Recommendations and rules specified in Part I of Good Practices:*

The Company runs a corporate website and publishes on it, in a readable form and on specified location, the following information, in addition to the information required by law:

I.Z.1.7. information material on the company's strategy and its financial results published by the company.

The Company's comments: The Company does not publish the strategy, because the situation on the markets the Company operates on is so dynamic that the strategy would become outdated too often.

I.Z.1.10. financial forecast, if the company decided to publish it, for at least a 5-year period, along with information about their implementation.

The Company's comments: The Company does not publish any financial forecast. Therefore, the rule does not apply.

I.Z.1.11. information about the content of the company's internal rules related to changing the entity authorized to audit financial statements, or about the lack of such rules.

The Company's comments: The Company does not apply the rule, since the Company complies with the relevant provisions relating to the change of auditor under the Act on Statutory Auditors and their Self-Government, Entities Authorized to Audit Financial Statements and Public Oversight, dated 7 May 2009.

I.Z.1.15. information containing the description of the company's diversity policy in relation to the management of the company and its key managers; the description should cover such elements of the diversity policy as gender, education, age, work experience, and should specify the objectives of the diversity policy used and the manner of its implementation within the reporting period; if the company has not developed and does not implement the diversity policy, it shall publish on its website the grounds behind the decision.

The Company's comments: The Company does not apply the diversity policy in relation to the Company's governing bodies of the and its key managers due to the nature of the markets in which it operates, in particular due to the limited number of key managers who may be obtained from the market.

I.Z.1.16. information on the planned broadcast of the General Meeting of Shareholders - no later than 7 days before the date of the General Meeting.

The Company's comments: Due to the shareholding structure of the Company, the Company does not broadcast general meetings by audio or video transmission.

I.Z.1.20. record of the general meeting proceedings in the audio or video form.

The Company's comments: Due to the shareholding structure of the Company, the Company does not broadcast general meetings by audio or video transmission and does not publish the record of it on the website.

2. *Recommendations and rules specified in Part II of Good Practices:*

II.Z.1. Internal division of responsibilities for different areas of the company's operations between board members should be formulated clearly and transparently, and the responsibility division should be available on the company's website.

The Company's comments: At the moment, the Company does not apply the specified rule, although the division of responsibility for different areas of the Company's operations between the members of the Board is under preparation and will be published on the Company's website after it becomes effective.

II.Z.7. As regards the responsibilities and functioning of committees of the Supervisory Board, the provisions of Annex I to the Recommendation of the European Commission referred to in Rule II.Z.4 shall apply. In the event the Supervisory Board acts in the capacity of the audit committee, these rules shall apply accordingly.

The Company's comments: The Company applies this rule, provided that the committees of the Supervisory Board consist of independent members of the Supervisory Board but they do not form a majority, as set out in the provisions of Annex I to the Commission Recommendation referred to in Rule II.Z.4.

3. Recommendations and rules specified in Part IV of Good Practices:

IV.R.1. The company should strive to convene the annual general meeting as soon as possible after the publication of the annual report, setting this date in compliance with relevant legal provisions.

The Company's comments: The current practice of the Company's is that annual general meetings are to be held usually in May or June which is compliant with the statutory deadline referred to in Article 395 § 1 of the Code of Commercial Companies.

IV.R.2. If it is reasonable due to the shareholding structure or expectations of the shareholders reported to the company, provided that the company is able to provide the technical infrastructure necessary to hold smoothly a General Meeting by means of electronic communication, the Company should enable the shareholders to participate in the General Meeting by means of such measures, including in particular through: 1) real-time broadcast of the meeting, 2) bilateral communication in a real time allowing for the shareholders to express their opinions in the course of the general meeting even though they are in a place other than the venue of the meeting, 3) the exercise, in person or by proxy, of voting rights during the general meeting.

The Company's comments: Due to the shareholding structure of the Company, as well as the lack of the required technical infrastructure, the Company does not broadcast general meetings and does not provide real-time two-way communication by electronic communication means.

IV.R.3. The Company strives to ensure that when securities issued by the Company are traded in various countries (or on different markets) and under various legal systems, the implementation of corporate events related to the acquisition of rights of a shareholder take place on the same dates in all countries they are listed in.

The Company's comments: This recommendation does not apply to the Company, as its issued securities are traded on the Warsaw Stock Exchange S.A. in Warsaw only.

IV.Z.2. If this is reasonable due to the shareholding structure of the company, the company shall provide a widely accessible real-time broadcast of a general meeting of shareholders.

The Company's comments: Due to the composition of the shareholding structure of the Company, the Company does not broadcast a general meeting in real time.

4. Recommendations and rules specified in Part V of Good Practices:

V.Z.6. The Company sets out in its internal regulations the criteria and circumstances where a conflict of interest may arise within the Company , as well as the rules of conduct in the face of conflict of interest or the possibility of its occurrence. Internal regulations of the company shall provide for, inter alia, how to prevent, identify and resolve conflicts of interest, as well as rules for excluding a member of the management board or supervisory board from participation in dealing with matters covered by or at risk of conflict of interest.

The Company's comments: At the moment, the Company does not apply the rule, but is in the process of preparing internal regulations concerning the criteria and circumstances where a conflict of interest may arise within the Company and rules of conduct in the face of their occurrence or the possibility of occurrence.

5. Recommendations and rules specified in Part VI of Good Practices:

VI.R.1. The remuneration of governing body members and key managers should be based on the remuneration policy adopted.

The Company's comments: The Company does not apply the recommendation as the Company has its own incentive program for members of the Management Board and is in the process of preparing an incentive scheme for key managers.

VI.R.2. The remuneration policy should be closely linked with the company's strategy, its short-term and long-term objectives , long-term interests and performance, and should include solutions for avoiding discrimination on any grounds.

The Company's comments: The Company does not apply the recommendation as the Company has its own incentive program for members of the Management Board and is in the process of preparing an incentive scheme for key managers.

VI.R.3. If the supervisory board contains a committee for remuneration matters, then Rule II.Z.7 applies to its work.

The Company's comments: As regards works of the remuneration committee, Rule II.Z.7 applies, provided however that the three-member remuneration committee shall contain one independent member of the supervisory board, so independent members do not constitute a majority in this committee.

VI.Z.1. Incentive programs should be designed so as to make the level of remuneration for members of the management board of the company and its key managers dependent on the real, long-term financial situation of the company and long-term growth in shareholder value and stability of the company.

The Company's comments: The Company does not apply the rule because the Company has its proprietary incentive program for members of the Management Board and is in the process of preparing an incentive scheme for key managers.

VI.Z.2. To link the remuneration of management board members and key managers with the Company's long-term business and financial objectives, the period between the award of options under the incentive program or other instruments linked to the stock of the company and the possibility of their exercise should be a minimum of 2 years.

The Company's comments: The Company does not apply the rule because the Company has its proprietary incentive program for members of the Management Board and is in the process of preparing an incentive scheme for key managers.

VI.Z.4. The Company, in its report on the activities, presents a report on the remuneration policy, including at least: 1) general information on the system of remuneration adopted by the Company, 2) information on the terms and amount of remuneration for each board member, broken down into fixed and variable components of remuneration, with key parameters determining the variable components of the remuneration and rules for severance payments and other payments due to termination of employment, contract work, or other legal relationship of similar nature - separately for the company and each entity within the group of companies, 3) information on non-financial remuneration components for individual members of the management board and key managers, 4) specification of significant changes, which occurred the past year in the remuneration policy, or information that there was no such change, 5) assessment of the practice of the remuneration policy in terms of implementation its objectives, including in particular long-term growth in value for shareholders and stability of the company.

The Company's comments: The Company does not publish a report on the remuneration policy in its report on Company's activities, but preparations are currently under way to make that kind of report a part of the report on activities.

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

The Company's General Meeting of Shareholders ("GMS") operates on the basis of provisions of the Commercial Companies Code, the Company's Statute and the Regulations of the General Meeting of Shareholders. The GMS is convened through announcements made at 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 organized trading and on public companies. Unless the provisions of the Commercial Companies Code or the Company's Statute provide otherwise, the GMS resolutions are adopted by an absolute majority of the votes cast however resolutions concerning:

1) liquidation of the Company;
2) increasing the Company's share capital, redemption of the Company's shares and decreasing the Company's share capital;
3) issue of convertible bonds or other securities which grant voting rights to the holder;
4) granting options which give the right to acquire shares or other securities of the Company and defining the conditions of such options;
5) depriving the Shareholders of the right to acquire new issue shares;
6) sale of the enterprise or an organized part thereof;
7) removal or suspension of members of the Management Board or Supervisory Board;
8) merger of the Company with another company, division and transformation of the Company;
9) cancelling dematerialization of the Company's shares;
10) changes of the Statute

passed with a majority of 2/3 (two thirds) of votes cast, or higher majority if required by relevant regulations. the General Meeting, save for relevant provisions of the Company's statute, shall appoint members of the Supervisory Board of the Company. Apart from matters listed above, GMS resolutions must be adopted in matters specified in the Commercial Companies Code, especially in the matter of examining and approving the Management Board's report on the activities of the Company and the Group of companies as well as the financial statements of Company and the Group of companies for the previous financial year, discharging members of the Company's corporate bodies on the performance of their duties, division of profit or coverage of loss, selling or leasing the enterprise or its organized part and establishing limited right in rem, issuing convertible bonds or senior bonds, redeeming shares, establishing and liquidating reserve capital; in case of the Company's liquidation, the GMS appoints liquidators and specifies the manner of conducting the liquidation process. The Management Board submits drafts of the GMS resolutions to the Supervisory Board for its prior opinion. The shareholders may participate in the GMS and exercise their voting rights in person or represented by their proxies. The Company's Management Board members and the members of the Supervisory Board participate in the GMS. If the GMS has any financial matters in its agenda, a certified auditor should be present. Media may participate in the GMS, unless the subject matter of the meeting indicates that their presence might cause damage to the Company. A motion to approve presence of media representatives is submitted to voting by the Chairman of the GMS immediately after the attendance list is signed.

The rights of Company's shareholders, including non-controlling shareholders, 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 of the publication of this report, the Company's Management Board consisted of:

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

In the last financial year , the following changes in composition of the Company's Management Board took place:

- On September 6, 2016, Mr. Nerijus Eidukevičius made a statement on resignation from the function of a member of the Management Board, Vice-President of the Management Board of the Company, with effect as at 8 September 2016;
- On December 30, 2016, Mr. Sławomir Raczyński submitted his resignation from the function of a member of the Management Board, Vice-President of the Management Board of the Company, with effect as at 30 December 2016.

The Company's Management Board operates on the basis of provisions of the Commercial Companies Code, the Company's Statute and the Regulations of the Management Board. Pursuant to the Company's Statute, the Management Board consists of no more than 10 persons, appointed and removed by the Supervisory Board, however if due to: (i) a change of Article 13.1, 13.4 of the Statute, (ii) a change of relevant law regulations, (iii) selection of the Supervisory Board in a manner defined in Article 385 § 5 and (or) 6 of the Code of Commercial Companies, the main shareholder of COMSA cannot appoint such number of members of the Supervisory Board that would constitute a majority of its members, COMSA shall be entitled to appoint and remove Management Board members in the number equivalent to 50% of all Management Board members (rounded down to a full number) and additionally one Management Board member. If the number of Supervisory Board members appointed by COMSA stops being a majority of Supervisory Board members then a resolution of the General Meeting concerning removal or suspension of a member (members) of the Management Board appointed by COMSA is undertaken with 2/3 of votes cast.

The Management Board members are appointed for a joint 3-year term of office. The Supervisory Board sets and changes remunerations and determines other terms and conditions of employment of the Management Board members. Pursuant to the Statute, 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 of Shareholders or the Supervisory Board. The resolutions of the Management Board are adopted by an absolute majority of the votes of members of the Management Board 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. An attorney 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 power of attorney).

6.3.2 Authorised signatories

The Company's authorised signatories included:

- Elżbieta Okuła
- Jan Sęktas

On December 6, 2016, the Management Board members recalled the authorisation granted to Marek Mazur.

The aforementioned authorized signatories submit statements on behalf of the Company acting jointly with a Management Board member pursuant to Article 20 of the Company's Statute. No new authorised signatories were appointed in the last financial year.

The authorised signatories act on the basis of provisions of the Civil Code, Commercial Companies Code, the Company's Statute 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 - Vice-Chairman 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.

In the last financial year , the following changes in composition of the Company's Supervisory Board took place:

- On 16 June 2016, the Company's Annual General Meeting appointed the current Supervisory Board for a new joint term of office without Mr. Andrzej Bartos, who was replaced by Łukasz Rozdeiczer-Kryszkowski.

After the balance sheet date no changes in the composition of the Supervisory Board took place.

The Company's Supervisory Board operates on the basis of provisions of the Commercial Companies Code, the Company's Statute and the Regulations of the Supervisory Board. The Supervisory Board of the Company currently consists of seven members. The Supervisory Board consists of its Chairman, two Vice-Chairmen and other members. The term of office of the Supervisory Board is three years.

Members of the Supervisory Board are appointed and removed by the General Meeting, whereas the main shareholder, COMSA S.A. is entitled to appoint and remove four members of the Supervisory Board by way of a written statement submitted to the Company. If the number of members of the Supervisory board is higher or lower than seven due to a change of Article 13.1 of the Statute or relevant law regulations, COMSA will be entitled to appoint and remove members of the Supervisory Board in a number equal to 50% of all Supervisory Board members (rounded down to a full number) and additionally one Supervisory Board member.

One of the Supervisory Board members appointed by the General Meeting should meet the following independence conditions:

1) not be a member of the Management Board of the Company or a related company, or fulfil such function during the last five years;
2) not be an employee of the Company or a related company, or fulfil such function during the last three years;
3) not receive, currently or in the past, significant additional remuneration from the Company or a related company, apart from remuneration received due to fulfilling the function of a Supervisory Board member;
4) not be, or not represent, in any manner, a majority shareholder or any shareholder with at least 5% of votes at the General Meeting;
5) not have currently, or during the last year, any significant business relations with the Company or a related company, both directly or as a partner, shareholder, director or a key employee of an entity having such relations;
6) not be currently or during the last three years a partner or employee of a current or former external auditor of the Company or a related company;
7) not be a managing director or an executive director in another company, in which a member of the Company's Supervisory Board is a non-executive director or a supervisory director and not have any

other significant relations with members of the Company's Management Board through activity in other companies or entities;

8) not fulfil a role of a member of the Supervisory Board for more than three terms of office;
9) not be a close family member of an executive director or managing director or persons referred to in Section 1) to 8).

The Supervisory Board, which composition does not include an independent member of the Supervisory Board, regardless of the reasons of such circumstances, has ability to undertake valid resolutions.

If COMSA S.A. does not appoint a Supervisory Board member (members) within twenty one days from the date of expiry of the mandate of a Supervisory Board member (members) appointed by COMSA S.A., such Supervisory Board member (members) should be appointed and revoked by the General Meeting until COMSA exercises its right. In case of COMSA S.A. exercising its right to select the Supervisory Board member, the mandate of a Supervisory Board member (members) appointed by the General Meeting pursuant to this provision shall expire automatically without influencing the term of office of the Supervisory Board.

The Supervisory Board, which due to the expiry of a mandate of a Supervisory Board member (members) (for reasons other than revocation) consists of less than seven but at least five members, has ability to undertake valid resolutions until the appointment of missing Supervisory Board members.

If the Supervisory Board is appointed in the manner defined in Article 385.5 or 6 of the Code of Commercial Companies, the Chairman shall be appointed by COMSA S.A. from among the candidates selected in the manner defined in Article 385.5 or 6 of the Code of Commercial Companies.

The members of the Supervisory Board are appointed for the period of a joint term of office. The Supervisory Board or its individual members appointed by the General Meeting of Shareholders may be recalled by a resolution adopted by the General Meeting of Shareholders before the lapse of the Supervisory Board's term. If a Supervisory Board member is recalled during the term of office and another person is appointed to fill that his or her position, the term of office of the newly appointed person ends upon the lapse 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 a 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 Vice-Chairman are appointed by the Supervisory Board from among its members.

The works of the Supervisory Board are managed by its Chairman and in the case of his/her absence by the Chairman Deputy. The members of the Supervisory Board may be reappointed for a new term of office. The members of the Supervisory Board shall be involved in the activities of the Supervisory Board personally. The Supervisory Board may also adopt its resolutions without holding meetings of the Board, in writing or with the use of means of direct communication over distance. Meetings of the Supervisory Board shall be convened at least four times per year by the Chairman, who chairs the meeting. In the absence of the Chairman, the meetings are chaired by one of the Vice-Chairmen. The Chairman convenes the meetings of the Supervisory Board also upon a written motion of the Company’s Management Board or the Supervisory Board member. The Chairman selects the Secretary of the Supervisory Board. A resolution of the Supervisory Board may be adopted at a meeting if all the board members have been invited in writing (such invitations should be delivered to the Supervisory Board members at least seven days before the day on which the meeting is to take place) and at least half of the members are present at the meeting, including the Chairman and at least one Vice-Chairman. A meeting of the Supervisory Board may also be valid without being formally convened, if all the Supervisory Board members are present at the meeting and none of the members protests against such a meeting being held or against any of the matters included in the agenda. Subject to Article 388.4 of the Code of Commercial Companies, the Supervisory Board may also adopt its resolutions in writing or with the use of means of direct communication at distance. In such case, a draft resolution should be presented to all members of the Supervisory Board by its Chairman, and in case of his absence, by one of the Vice-Chairmen.

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 Statute. The Supervisory Board appoints the Company’s certified auditor. Resolutions of the Supervisory Board shall be adopted by a simple majority of votes. If there is no majority, the vote of the Chairperson of the Supervisory Board shall prevail.

On 25 July 2013, the Supervisory Board of the Company set up the Audit Committee composed of Supervisory Board's members, and the Committee is currently composed as follows: Mr Wojciech Napiórkowski (President of the Audit Committee), Mr Fernando Perea Samarra (Member of the Audit Committee) and Mr Dominik Radziwiłł (Member of the Audit Committee).

Detailed rules concerning the activities of the Supervisory Board are outlined in the Rules of the Supervisory Board adopted by the General Meeting.

6.4 Description of basic features of external audit and risk management systems with reference to the process of preparation of 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 of the European Commission, hereinafter referred to as the "IAS", as given in Article 2, item 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 does not have a separate internal audit unit, and therefore any actions related to internal audit are taken by the Company's Management Board and employees.

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

Since 2015, Trakcja PRKiI has kept its accounting books in 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 defined modules.

The consolidated financial statements are prepared based on uniform consolidation packages prepared in an electronic form by the respective Group companies. The process of data consolidation is conducted in the Stock Exchange Reporting Department of the Company under the supervision of the Vice-President of the Management Board - Finance Director.

The Supervisory Board assesses the separate and consolidated financial statements and appoints the Audit Committee being an advisory and opinion-generating body operating within the structures of the Supervisory Board. The main goal of the Audit Committee is to support the Supervisory Board in conducting financial supervision and providing the Supervisory Board with measurable information and opinions allowing to effectively make proper decisions in terms of financial reporting, internal control and risk management, and ensuring independence and objectivity of the entity authorized to audit financial statements.

Pursuant to applicable laws, Trakcja PRKiI 's financial statements are annually audited and semi-annually reviewed by an independent certified auditor. The selection of the certified auditor is made by the Company's Supervisory Board from among renowned auditing companies based on recommendations of the Audit Committee. Within the scope of audit works, the certified auditor makes an independent assessment of the reliability and correctness of separate and consolidated financial statements and confirms the effectiveness of the internal control and risk management system.

6.5 Indication of the set of corporate governance rules applicable to the Issuer and the place where it is publicly available

In 2016, Trakcja PRKiI followed the corporate governance rules provided in the Good Practices for Companies Listed on the Warsaw Stock Exchange 2016 adopted by resolution 1309/2015 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. on 17 December 2015.

The document is available at the registered office of the Warsaw Stock Exchange and at its website devoted to corporate governance issues at http://corp-gov.gpw.pl and also at the Company's website in the "Corporate governance" tab.

6.6 Specification of shareholders holding directly or indirectly significant shareholdings

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

Shareholders	Number of shares	% in the share capital	Number of votes	% in votes at GSM
COMSA S.A.	15 843 193	30,82%	15 843 193	30,82%
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	26 094 797	50,77%	26 094 797	50,77%
Total	**51 399 548**	**100,00%**	**51 399 548**	**100,00%**

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 providing no special rights.

6.8 Specification of any restrictions on voting rights

Resolutions at the Annual General Meeting are passed with an absolute majority of votes cast, whereas resolutions concerning:

1) liquidation of the Company;
2) increasing the Company's share capital, redemption of the Company's shares and decreasing the Company's share capital;
3) issue of convertible bonds or other securities which grant voting rights to the holder;
4) granting options which give the right to acquire shares or other securities of the Company and defining the conditions of such options;
5) depriving the Shareholders of the right to acquire new issue shares;
6) sale of the enterprise or an organized part thereof;
7) removal or suspension of members of the Management Board or Supervisory Board;
8) merger of the Company with another company, division and transformation of the Company;
9) cancelling dematerialization of the Company's shares;
10) changes of the Statute.

passed with a majority of 2/3 (two thirds) of votes cast, or higher majority if required by relevant regulations. Apart from the above restrictions and those following from the commonly applicable regulations, the Company's internal acts do not introduce any additional restrictions.

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

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

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

Pursuant to the Company's Statute, the Management Board is appointed and revoked by the Supervisory Board based on the resolution, however if due to: (i) a change of Article 13.1, 13.4 of the Statute, (ii) a change of relevant law regulations, (iii) selection of the Supervisory Board in a manner defined in Article 385 § 5 and (or) 6 of the Code of Commercial Companies, the main shareholder of COMSA cannot appoint such number of members of the Supervisory Board that would constitute a majority of its members, COMSA shall be entitled to appoint and remove Management Board members in the number equivalent to 50% of all Management Board members (rounded down to a full number) and additionally one Management Board member. If the number of Supervisory Board members appointed by COMSA stops being a majority of Supervisory Board members then a resolution of the General Meeting concerning removal or suspension of a member (members) of the Management Board appointed by COMSA is undertaken with 2/3 of votes cast. The Management Board members are appointed for a joint 3-year term of office. Pursuant to the Statute, 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 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. An attorney 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 power of attorney). Rules concerning decisions about issuance or purchase of shares (increasing or decreasing the share capital) are reserved for the General Meeting, which undertakes resolutions with a majority of 2/3 of votes cast.

6.11 Description of rules for changing the Statute of Trakcja PRKiI

The rules for making changes to the Company's Statute do not differ from the rules set forth in the commonly applicable provisions of law.

6.12 Information on sponsoring policy

As a responsible member of business community, Trakcja Group has been continuously supporting cultural and social initiatives of local communities, both in Poland and abroad, where it carries out its business activities. The Group supports higher education and development of academic projects implemented by research institutions, and also activities aimed at promoting new technologies in the transport infrastructure construction activities. The Group is also engaged in projects whose promotional and image-building potential is essential for its brand. One of its subsidiaries is a key sponsor of the legendary Lithuanian basketball club Žalgiris Kaunas. In 2016, Trakcja Group's expenses on sponsoring and corporate social responsibility activities were PLN 3,895 thousand.

Warsaw, March 21, 2017

Jarosław Tomaszewski

President of the Board

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

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 1 January 2016 to 31 December 2016 and the comparable data for the period from 1 January 2015 to 31 December 2015 have been prepared in compliance with the accounting principles in force and reflect the Company's assets and financial standing as well as its financial performance in a true, reliable and clear manner. The report of the Management Board on the activities of the Issuer presents a true picture of the development, achievements, risks, threats and condition of Trakcja PRKiI S.A.

We also represent that the entity authorised to audit the financial statements which examines the annual financial statements of Trakcja PRKiI S.A. for a 12-month period ended 31 December 2016, namely Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., was appointed in accordance with the provisions of law. The aforementioned entity as well as the statutory auditors, who conducted the audit, fulfilled the conditions for expressing an unbiased and independent opinion about the audit, as required by the applicable provisions of law and professional standards.

Jarosław Tomaszewski

President of the Board

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Warsaw, on 21 March 2017

TRAKCJA PRKiI S.A.

ANNUAL FINANCIAL STATEMENT

FOR THE FINANCIAL YEAR

ENDED ON DECEMBER 31, 2016

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. has approved the annual financial statements of Trakcja PRKiI S.A. for the period from January 1, 2016 to December 31, 2016.

The annual financial statements for the period from January 1, 2016 to December 31, 2016 were prepared in line with the International Financial Reporting Statements ("IFRS") approved by the European Union and applicable as at December 31, 2016. Information included herein is presented in the following sequence:

1. Income statement for the period from January 1, 2016 to December 31, 2016 showing a net profit of PLN **28,699** thousand.
2. Statement of comprehensive income for the period from January 1, 2016 to December 31, 2016 showing a comprehensive income of PLN **29,449** thousand.
3. Balance sheet as at December 31, 2016 showing assets and liabilities in the total amount of PLN **1,014,058** thousand.
4. Statement of cash flows for the period from January 1, 2016 to December 31, 2016 showing a decrease in net cash by PLN **117,205** thousand.
5. Statement of changes in equity for the period from January 1, 2016 to December 31, 2016 showing an increase in equity by PLN **11,984** thousand.
6. Additional information and explanations.

The annual financial statements are expressed in thousands of Polish zlotys, unless clearly marked otherwise.

Some financial and operational data included herein are rounded. Therefore, the sum of the amounts in a given column or row in certain tables included in the financial statements may differ slightly from the total amounts given for such a column or row.

Jarosław Tomaszewski

President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Warsaw, on March 21, 2017

CONTENTS

(data in PLN thousand, unless indicated otherwise)

PROFIT AND LOSS ACCOUNT

	Note	1.01.2016 - 31.12.2016 Audited	1.01.2015 - 31.12.2015 Audited
Continued operations			
Sales revenues	**12**	**826 198**	**763 399**
Cost of goods sold	**13**	**(787 275)**	**(700 208)**
Gross profit (loss) on sales		**38 923**	**63 191**
Cost of sales, marketing and distribution		(2 132)	(1 718)
General and administrative costs		(25 275)	(33 332)
Other operating revenues	14	3 548	3 622
Other operating costs	15	(5 350)	(1 669)
Operating profit (loss)		**9 714**	**30 094**
Financial revenues	16	25 945	18 650
Financial costs	17	(5 929)	(7 106)
Gross profit (loss)		**29 730**	**41 638**
Income tax	18	(1 031)	(6 477)
Net profit (loss) from continued operations		**28 699**	**35 161**
Discontinued operations			
Net profit (loss) from discontinued operations		-	-
Net profit (loss) from discontinued operations		**28 699**	**35 161**
Net profit/(loss) in PLN per one share	**20**		
– basic from profit for the period		0,56	0,68
– basic from profit from continued operations		0,56	0,68
– diluted from profit for the period		0,56	0,68
– diluted from profit from continued operations		0,56	0,68

(data in PLN thousand, unless indicated otherwise)

STATEMENT OF COMPREHENSIVE INCOME

	Note	1.01.2016-31.12.2016 Audited	1.01.2015-31.12.2015 Audited
Net profit (loss) for the period		**28 699**	**35 161**
Other total income for the period			
Other comprehensive income that will not be reclassified into profit or loss under certain conditions:	**18.2**	**759**	**(161)**
Profit from revaluation referred into revaluation reserve		(490)	-
Actuarial gains/(losses)		1 249	(161)
Other comprehensive income that will be reclassified to profit or loss::		**(9)**	**-**
Foreign exchange differences on translation of foreign operations		(9)	-
Total other comprehensive income		**750**	**(161)**
TOTAL INCOME FOR THE PERIOD		**29 449**	**35 000**

(data in PLN thousand, unless indicated otherwise)

BALANCE SHEET

ASSETS	Note	31.12.2016	31.12.2015
		Audited	Modified
Non-current assets		**657 078**	**619 661**
Tangible non-current assets	21	134 895	117 408
Intangible assets	23	54 276	55 567
Investment properties	22	17 174	17 602
Investment in entities	24	436 241	412 572
Investments in affiliates	25	-	2 008
Other financial assets	27	4 734	4 671
Deferred tax assets	18.3	7 483	6 587
Prepayments	28	2 275	3 246
Current assets		**356 980**	**299 500**
Inventory	29	30 400	31 283
Trade and other receivables	30	281 302	101 581
Other financial assets	27	5 836	11 828
Cash and cash equivalents	31	18 820	136 025
Prepayments	28	3 981	7 206
Construction contracts	33	13 579	8 515
Assets held for sale	32	3 062	3 062
Total assets		**1 014 058**	**919 161**

EQUITY AND LIABILITIES

Equity	**35**	**625 311**	**613 327**
Share capital		41 120	41 120
Share premium		309 984	309 984
Revaluation reserve		5 800	6 295
Other capital reserves		239 717	220 767
Retained earnings		28 699	35 161
Foreign exchange differences on translation of foreign operations		(9)	-
Total equity		**625 311**	**613 327**
Long-term liabilities		**80 736**	**47 399**
Interest-bearing loans and borrowings	37	54 759	33 340
Provisions	36	17 577	4 690
Liabilities due to employee benefits	39	8 400	9 369
Short-term liabilities		**308 011**	**258 435**
Interest-bearing loans and borrowings	37	16 249	9 651
Trade and other liabilities	40	245 053	182 398
Provisions	36	19 722	6 189
Liabilities due to employee benefits	39	7 200	6 722
Income tax liabilities		2 095	3 362
Other financial liabilities	38	-	148
Accruals		258	150
Construction contracts	33	17 434	49 815
Total equity and liabilities		**1 014 058**	**919 161**

STATEMENT OF CASH FLOWS

(data in PLN thousand, unless indicated otherwise)

	Note	For the period 12 months ended 31.12.2016 Audited	31.12.2015 Audited
Cash flows from operating activities			
Gross profit from continued operations		**29 730**	**41 638**
Gross profit (loss) from discontinued operations		-	-
Adjustments for:		**(123 823)**	**165 161**
Depreciation		12 197	10 798
FX differences		246	(856)
Net interest and dividends		(22 696)	(12 047)
Profit on investment activities		(121)	(190)
Change in receivables		(179 712)	279 495
Change in inventory		883	(11 564)
Change in liabilities, excluding loans and borrowings		73 287	(114 085)
Change in prepayments and accruals		4 298	(6 622)
Change in provisions		26 420	(69)
Change in construction contracts		(37 444)	26 922
Income tax paid		(3 362)	(7 533)
Other		2 187	912
Foreign exchange differences on translation of foreign operations		(5)	-
Net cash flows from operating activities		**(94 093)**	**206 799**
Cash flows from investment activities			
Sale (purchase) of intangible assets and tangible non-current assets		(10 712)	(9 256)
- acquisition		(22 927)	(15 570)
- sale		12 215	6 314
Sale (acquisition) of shares and stocks in affiliates and subsidiaries	24	(21 660)	(19 574)
- acquisition		(21 660)	(19 574)
Financial assets		6 316	364
- granted or acquired		11 289	12 576
- repaid		(4 973)	(12 212)
Loans		(200)	16 248
- repaid		3 500	19 048
- granted		(3 700)	(2 800)
Dividend received		14 028	16 749
Interest received		-	2 880
Net cash flows from investment activities		**(12 228)**	**7 411**
Cash flows from financial activities			
Net proceeds from issue of shares		-	(32 536)
Proceeds on account of taken borrowings and loans		21 500	-
Repayment of borrowings and loans		(4 304)	(11 123)
Interest paid		(3 129)	(4 591)
Payment of liabilities under financial lease agreements		(7 127)	(5 117)
Inflows (outflows) from other financial liabilities	38	(348)	(38 931)
Dividends paid to shareholders		(17 476)	-
Net cash flows from financial activities		**(10 884)**	**(92 298)**
Total net cash flows		**(117 205)**	**121 912**
Net FX differences		-	-
Cash at start of period		**136 025**	**14 113**
Cash at end of period	**31**	**18 820**	**136 025**
- with limited access		-	928

(data in PLN thousand, unless indicated otherwise)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserve	Other reserve capitals		Foreign exchange differences on translation of foreign operations	Retained earnings	Total
Audited				**Actuarial gains/ (losses)**	**Results from previous years**			
As at 1.01.2016	**41 120**	**309 984**	**6 295**	**(779)**	**221 546**	**-**	**35 161**	**613 327**
Corrections of errors	-	-	-	-	-	-	-	-
Changes of accounting standards	-	-	-	-	-	-	-	-
As at 1.01.2016 after adjustments	**41 120**	**309 984**	**6 295**	**(779)**	**221 546**	**-**	**35 161**	**613 327**
Net profit for the period	-	-	-	-	-	-	28 699	28 699
Other comprehensive income	-	-	(490)	1 249	-	(9)	-	750
Distribution of profit	-	-		-	17 685	-	(17 685)	-
Dividend payment	-	-	-	-	-	-	(17 476)	(17 476)
Other	-	-	(5)	-	16	-	-	11
As at 31.12.2016 Audited	**41 120**	**309 984**	**5 800**	**470**	**239 247**	**(9)**	**28 699**	**625 311**
Modified*								
As at 1.01.2015	**41 120**	**309 984**	**12 604**	**(4 106)**	**171 845**	**-**	**49 797**	**581 244**
Corrections of errors	-	-	-	-	-	-	-	-
Changes of accounting standards	-	-	-	-	-	-	-	-
As at 1.01.2015 after adjustments	**41 120**	**309 984**	**12 604**	**(4 106)**	**171 845**	**-**	**49 797**	**581 244**
Net profit for the period	-	-	-	-	-	-	35 161	35 161
Other comprehensive income	-	-	-	(161)	-	-	-	(161)
Distribution of profit	-	-	-	-	49 797		(49 797)	-
Transfer within equity	-	-	(1 296)	3 488	(2 192)	-	-	-
Settlement of the acquisition of the shares of PRK 7 Nieruchomości	-	-	(4 995)	-	2 042	-	-	(2 953)
Other	-	-	(18)	-	54		-	36
As at 31.12.2015 Audited	**41 120**	**309 984**	**6 295**	**(779)**	**221 546**	**-**	**35 161**	**613 327**

**) Information regarding the data restated is detailed in Note 11 of the financial statements for 2016.*

ADDITIONAL INFORMATION AND EXPLANATIONS

1. General information

These financial statements cover the period of the financial year ended December 31, 2016 and contain comparable data for the period of the financial year ended December 31, 2015.

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

On September 1, 2009, the District Court of the City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, registered the merger of Trakcja Polska S.A., as an overtaking company, with Przedsiębiorstwo Robót Komunikacyjnych-7 S.A., as an overtaken company. The merger was settled and recognised in the accounting books of the Company, to which the assets of the merged companies were transferred, i.e. Trakcja Polska S.A., according to the pooling of interest method, as at August 31, 2009. The actual merger, according to IFRS 3, took place at the acquisition of control, i.e. on September 1, 2007.

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 on the basis of 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 name from Trakcja – Tiltra S.A. to Trakcja S.A. The above change was registered on the basis of 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 overtaking company, with Przedsiębiorstwo Robót Kolejowych i Inżynieryjnych S.A., as the overtaken company. The merger was settled and recognised in the accounting books of the Company, to which the assets of the merged companies were transferred, 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 name from Trakcja S.A. to Trakcja PRKiI S.A. The above change was registered on the basis of Resolution No. 4 adopted by the 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, 18th floor.

The Company has been established for an indefinite period of time.

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

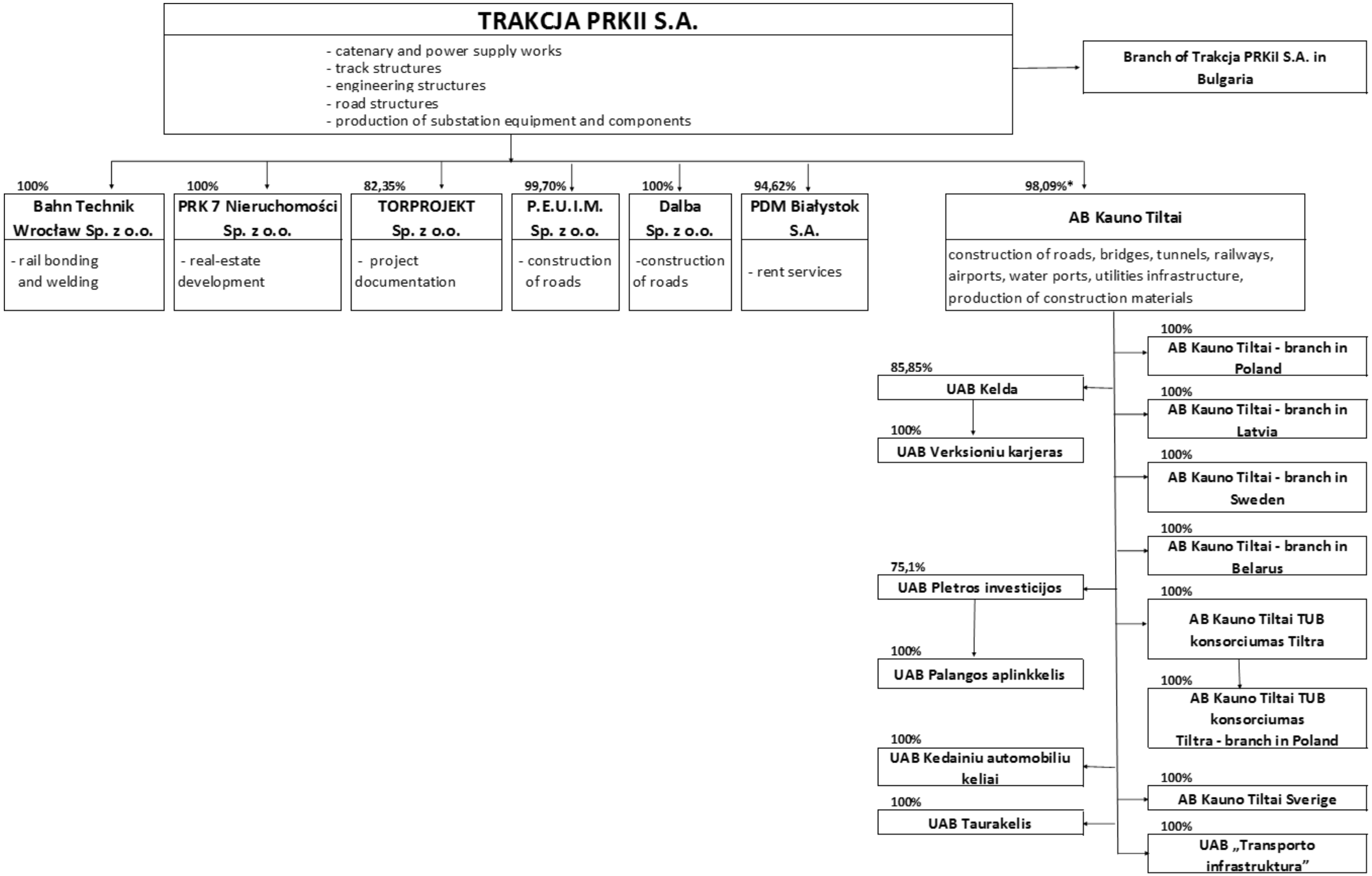
The Company specialises in the following types of activity:

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

- manufacturing of products (high, medium and low voltage switching stations, traction network 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 passings, roads and accompanying elements of rail and road infrastructure.

2. Group members

Trakcja PRKiI is the Parent company of Trakcja Group. The Group's composition and structure as at December 31, 2016 are presented in the diagram below.



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

As at December 31, 2016, the Group consists of the Parent company, i.e. Trakcja PRKiI, and its subsidiaries.

Fully-consolidated entities:

Bahn Technik Wrocław Sp. z o.o.

Trakcja PRKiI is the sole shareholder 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 the Company has had full control over BTW.

The business activities of BTW include: the sale of Strail crossing surface offered by Gummiwerk Kraiburg Elastik GmbH, thermite welding, repair and renovation of turnouts, renovation of railway and tramway crossings, execution of pre-stressed, glued insulation joints type S, welding of tram and railway tracks, tamping and profiling of railway and tram tracks, sale of Perker SR rail lubrication systems and A.Rawie rail buffer stops. In addition, since December 2015, BTW has had the GOTTWALD crane and the DGS track stabilizer. BTW provides 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 investments, which include, among others: Lazurowe Osiedle residential project in Warsaw - stage I and II, and the investment at ul. Oliwska in Warsaw, as well as the construction of three multi-family residential buildings in Warsaw at ul. Pełczyńskiego. Currently, the company has completed an investment involving the construction of terraced houses at ul. Oliwska in Warsaw and their sale has just begun.

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 materials and detailed designs in the following areas: railway lines, stations, nodes, passenger stops and loading points, bridges, overpasses, railway traffic control devices, buildings and structures, including technology, etc.

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

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

Dalba Sp. z o.o.

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

PDM Białystok S.A.

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

AB Kauno Tiltai Group

AB Kauno Tiltai is the largest company in the road and bridge construction sector in the Baltic countries. The Company specialises in the construction and reconstruction of roads, bridges, tunnels, railways, airports, water ports, which is confirmed, inter alia, by the fact that from the beginning of its business activities, 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 the AB Kauno Tiltai Group.

The AB Kauno Tiltai Group members are the following entities:

- UAB Kelda – a subsidiary with registered office in Vievis (Lithuania); the company's subsidiary is:
  - UAB Verksioniu karjeras - a subsidiary with its registered office in Bagoteliu K (Lithuania);

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

The ultimate Parent company is a Spanish company, COMSA SA, which prepares consolidated financial statements that include the data of Trakcja Group.

Changes in the Group

In the period from January 1, 2016 to December 31, 2016, the structure of Trakcja Group changed as described below.

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

On September 20, 2014, AB Kauno Tiltai opened its branch in Sweden.

On December 30, 2016, Trakcja acquired 50% of shares in BTW from Leonhard Weiss International GmbH with its registered office in Göppingen. Since then the Company has had full control over BTW.

After the balance sheet date, on February 9, 2017, a subsidiary named ТРАКЦІЯ УКРАЇНА ("Trakcja Ukraina" Sp. z o.o.) was established in Dnipro (Ukraine). Its majority owner is PDM Białystok S.A. On March 3, 2017, Trakcja PRKiI S.A. opened its branch in Ukraine.

3. Management Board members

As at December 31, 2016, 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.

On September 6, 2016, the Supervisory Board of Trakcja PRKiI S.A. and the Company were notified that Mr. Nerijus Eidukevičius, Vice-President of the Management Board, resigned from the Management Board of Trakcja PRKiI S.A. The resignation was submitted with effect from September 8, 2016.

On December 30, 2016, the Company was notified that Mr. Sławomir Raczyński, Vice-President of the Management Board, resigned from the Management Board of Trakcja PRKiI S.A. The resignation was submitted with effect from December 30, 2016.

After the balance sheet date, there were no changes in the composition of the Company's Management Board.

4. Supervisory Board members

As at December 31, 2016, 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.

As the term of office of the Supervisory Board of Trakcja PRKiI S.A. expired in the reporting period from January 1, 2016 to December 31, 2016, the composition of the Supervisory Board has been changed. On June 6, 2016, exercising its powers resulting from the Articles of Association, COMSA S.A. notified that it appointed four members of the Supervisory Board. Thereafter, on June 16, 2016, the Annual General Meeting of Trakcja PRKiI S.A. adopted Resolutions 24 to 26 appointing three members of the Supervisory Board. The seven members of the Supervisory Board have been appointed for a new joint three-year term of office that commenced as at date of the Annual General Meeting. Six out of the aforementioned members of the new Supervisory Board had already been members of the Supervisory Board of Trakcja PRKiI S.A. It is only Mr. Łukasz Rozdeiczer-Kryszkowski who was appointed as a member of the Supervisory Board for the first time by a resolution adopted by the Annual General Meeting of Trakcja PRKiI S.A. on June 16, 2016.

After the balance sheet date, there were no changes in the composition of the Company's Supervisory Board.

5. Approval for publication of the annual financial statements

These annual financial statements were approved by the Management Board for publication on March 21, 2017.

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

In the process of applying the accounting principles (policy), such factors are important as the accounting estimates, assumptions and professional judgement of the entity's management. The assumptions and estimates made are based on the past experience and 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 assumption related thereto are verified as at the balance sheet date. Despite the fact that the estimates are based on the best information regarding the current conditions and operations performed by the Company, the actual performance may differ from the estimates.

If a transaction is not regulated by any standard or interpretation, the Management Board uses its considerable judgement in developing and applying an accounting policy that results in information provided in the financial statements that is relevant and faithful and in the financial statements that:

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

- reflect the economic substance of transactions,

- are neutral,

- are prudent, and

- complete in all material respects.

Please find below the professional judgement of the management and the assumptions concerning the future and other key sources of uncertainties present at the balance sheet date, which have a significant risk of causing a material 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 valuation techniques. In selecting appropriate methods and assumptions, the Company follows the professional judgement. The assumptions made are presented in Note 45 of the Additional Information and Explanations. In 2016, the Company did not change the valuation method for financial instruments measured at the 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 rewards incidental to ownership of a leased asset lie with the lessor or the lessee. This depends on the economic substance of each transaction. For additional information please refer to Note 8.2.4, 42 and 43.

Investment property

The Company's Management Board classifies a property as a tangible fixed asset or an investment property depending on its intended use by the Company.

Control over the related parties

The Company exercises control over the related parties, 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 the 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. became the shareholder in PRK 7 Nieruchomości owning to the merger between Trakcja S.A. and PRK 7 S.A. which in turn owned PRK 7 Nieruchomości Sp. z o.o.

Trakcja PRKiI is the sole shareholder in Bahn Technik Wrocław Sp. z o.o. and has full control over the subsidiary. On December 30, 2016, Trakcja PRKiI S.A. acquired the remaining 50% of shares in BTW and therefore became its owner.

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 owner of Torprojekt through the acquisition of its shares.

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 owner of PEUiM through the acquisition of its shares.

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 owner of Dalba through the acquisition of its shares.

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

Trakcja PRKiI holds 98.09% of shares in AB Kauno Tiltai and has full control over the subsidiary. Trakcja PRKiI S.A. has become the owner of AB Kauno Tiltai through the acquisition of its shares. AB Kauno Tiltai is the parent company of the 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 form of the arrangement, the terms agreed by the parties in the contractual arrangement and other facts and circumstances. Until the acquisition of control over BTW, i.e. December 30, 2016, the Company classified the shares held in Bahn Technik Wrocław Sp. z o.o. as a joint venture in accordance with IFRS 11.

6.2. Assumption and estimation uncertainty

Recognition of revenues

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

Provisions for additional works

Provisions for additional works have been 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 warranty for the services rendered. A provision for additional works depends on the segment in which the Company operates and is based on the Company's historical data. It is subject to individual review and may be increased or decreased when necessary. Any change in the estimates affects the value thereof. The carrying amount of provisions for additional works as at December 31, 2016 is specified in Note 36 of the Additional Information and Explanations.

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 on the basis of their course.

Measurement of employee benefit liabilities

Employee benefit liabilities in respect of severance payments and jubilee prizes have been estimated using actuarial methods. They depend on many factors that are applied as assumptions of the actuarial method. The key assumptions include the discount rate and the average expected pay increase. The assumptions made and the carrying amount of the employee benefit liabilities as of December 31, 2016 are presented in Note 39 of the Additional Information and Explanations.

Deferred tax assets

The Company recognises deferred tax assets based on the assumption that future taxable profits will allow for its utilisation. 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 taken into account, new information and past experiences. The likelihood that deferred tax assets will be utilised against future taxable profits is assumed in 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 deferred tax assets as at December 31, 2016 is specified in Note 18.3 of the Additional Information and Explanations.

Amortization rates

The amount of amortisation rates is set based on the expected period of economical usability of material components of fixed assets and intangible property. The Company every year performs verification of the adopted periods of economical usability based on current estimations.

Investment property

Investment property is measured at their fair value. The value of investment property was 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 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 investment property as at December 31, 2016 is provided in Note 22 of the Additional Information and Explanations.

Loss of financial assets value

At the assessment whether the financial assets have not lost their value, the available and commonly applied methods of valuation were used taking into account the Company prospect cash flows in respect of the possessed assets.

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 the companies acquired, and therefore specifies the total acquisition price for all the companies together and 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, 2016 is presented in Note 24 of the Additional Information and Explanations.

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 net realisable value of those inventories that lost their functional properties or are no longer useful. For more information please see Note 29.

Recoverability of trade receivables and other receivables

The Management Board assesses whether there are any indications that trade receivables and 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 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 the individual analysis of individual receivables or on the basis of statistical recoverability ratios estimated for collective receivables grouped by age. The 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 30.

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 regarding measurement techniques and input data used for measuring fair value of individual assets and liabilities is disclosed in Note 22 and 45.

7. Basis for preparing the annual financial statements

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

The annual financial statement is presented in Polish zloty (PLN, zł), and all values, if not identified otherwise, are given in thousand zloty.

Some financial data, included herein, have been rounded. Therefore, total amounts in the given column or row in certain tables presented in the statements may differ from the total amount presented for such column or row.

The annual financial statement has been made assuming the continuity of economical operation of the Company that can be predicted in the future. At the day of approving this financial statement, there are no circumstances threatening the operations of the Company.

7.1. Declaration of conformity

Annual financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) approved by the European Union, published and applicable as at December 31, 2016. The standards that did not come into force on December 31, 2016 and were not approved by the European Union at the day of preparing this financial statement are presented in Note 9.

(data in PLN thousand, unless indicated otherwise)

The standards that did not come into force on December 31, 2016 and were not approved by the European Union at the day of preparing this financial statement are presented in Note 9.

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

7.2. Currency of measure and currency of financial statements

Polish zloty is the currency of measure and the currency of financial statements for these annual financial statements, except for the establishment of Trakcja PRKiI S.A. in Bulgaria, whose currency of measure and currency of financial statements is Bulgarian Lev (BGN).

8. Significant accountancy principles

8.1. Conversion of item in foreign currency

Polish zloty is the Company's functional currency , and for the establishment of Trakcja PRKiI S.A. in Bulgaria it is Bulgarian Lev (BGN).

Transactions expressed in foreign currencies are converted by the Company into their currency in force using the exchange rate applicable at the transaction day.

As at the balance sheet date, the cash assets and liabilities expressed in foreign currencies are converted to Polish zloty using respectively the average exchange rate applicable at the end of the reporting period for the given currency, announced by the National Bank of Poland. The exchange rate differences caused by the conversion are properly posted in the financial incomes (costs) item.

Non-cash assets and liabilities recognised at cost expressed in foreign currency are disclosed at cost as at the transaction date. 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 are adopted for the needs of the balance sheet appraisal:

Exchange rate on the reporting date	31.12.2016	31.12.2015
PLN/USD	4,1793	3,9011
PLN/EUR	4,4240	4,2615
PLN/SEK	0,4619	0,4646
PLN/BYN*	2,1589	0,0002
PLN/BGN	2,2619	2,1789

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

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

8.2. Tangible fixed assets

8.2.1. Fixed assets

Fixes assets are appraised according to the value of purchase or cost of producing reduced by write offs and any write downs by virtue of value loss. The initial value of fixed assets cover their purchase value increased by all costs directly related to purchase and adaptation of the property component for use. The cost consists of costs of replacement of spare parts in machines and devices at the moment they are incurred, if the recognition criteria are met. Costs incurred after the date the fixed asset is transferred for utilization, such as maintenance and repair costs, burden the income statement at the moment they are incurred.

(data in PLN thousand, unless indicated otherwise)

The carrying amount of the fixed asset includes costs of modernisation, but the costs of regular, significant overhauls which are necessary to prevent failures and whose value significantly differs in individual reporting periods is recognised as prepayments. Possible remaining balance sheet value of costs of previous overhaul is removed from the balance sheet value of the fixed asset.

Fixed assets (excluding own lands that do not serve for output of useful minerals using open pit methods) are amortized using the linear method within the period of expected economic life. The period of expected economic life of each asset is specified at the day of taking over the asset for use. The fixed assets, which are the objects of the financial lease agreements, are depreciated according to the method determine by the Company for its own fixed assets. However, if the transfer of the ownership title to the subject of the agreement is not certain, the fixed assets under the financial lease agreements are depreciated during the shorter of the two periods: their expected useful life or the lease term. Fixed assets under construction include any fixed assets which are not directly accepted for use, because they need to be assembled or adapted or have any other additional works carried out or expenses incurred before their acceptance for use.

Fixed assets not used, withdrawn from use, identified for liquidation or sale are assessed at value no higher than their sales price net that can be obtained.

Fixed assets are depreciated according to the linear method. The applied amortization rates correspond to the period of economic life of fixed assets.

Periods of economic life of fixed assets accepted in the Company are 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 final value, lifetime and the method of amortization of the assets components are verified every year and if necessary - corrected if the correction falls at the beginning of the following fiscal year.

A given item of material fixed assets may be removed from the balance sheet after its sale or in case when no economical profits resulting from further use of such assets component are expected. All profits or losses resulting from removing such assets component from the balance sheet (calculated as the difference between possible incomes on sales net and the balance sheet value of the given item) are included in the income statement in the period when such removal took place.

8.2.2. Fixed assets in progress

Fixed assets in progress are assessed in the amount of total costs which are in the direct relation with their purchase or production. Such costs include financial costs net related to operation and securing the liabilities financing the fixed assets in progress incurred (paid and treated) since the day of their transfer for use.

Fixed assets in progress waived, destined for liquidation or sale are assessed at value no higher than their sales price net that can be obtained.

Fixed assets in progress are not subject to amortization until completion of the construction and transfer of the fixed asset for use.

Each time, during performing a repair, cost of the repair is included in the balance value of material fixed assets, if the posting criteria are met.

8.2.3. Right of perpetual usufruct of land

The Company has 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 – recognised as operating lease in the off-balance sheet.
- the right of perpetual usufruct of land acquired against consideration or through the acquisition of subsidiaries – recognised in tangible fixed assets as land at the acquisition price less any depreciation. Depreciation charges are disclosed in the income statement as general costs 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

The financial lease agreements, which transfer all the risk and all benefits resulting from possessing the leased item to the Company, are included in the balance at the date the leasing starts according to the lesser of the below two values: the fair value of the asset subject to the lease or the present value of the minimum lease charges. The leasing fees are divided to financial costs and reduction of the balance of liability by virtue of the lease in a way that enables obtaining fixed interest rate on the remaining part of the liability. Financial expenses are charged directly to the income statement.

The fixed assets, which are the objects of the financial lease agreements, are depreciated according to the method determine by the Company for its own fixed assets. However, if the transfer of the ownership title to the subject of the agreement is not certain, the fixed assets under the financial lease agreements are depreciated during the shorter of the two periods: their expected useful life or the lease term.

The lease agreements, according to which the lessor maintains basically all the risk and all benefits resulting from possessing the leased object, are included among the operating lease agreement. The lease fees by virtue of the operating lease and further lease instalments are included as costs in the income statement using the linear method within the period the lease is in force.

8.2.5. Investments in related entities and in the co-controlled entity

Shares in related entities and the co-controlled entity are recognised at their purchase price less any impairment losses. Impairment losses are recognised according to IAS 36 Impairment of Assets through the comparison of the carrying amount with the higher of the two following two values: the fair value less any costs to sell and the use value.

8.2.6. Loss of non-financial assets value

At each balance sheet date, the Company assesses whether there are any premises indicating that loss of value of any of the assets components could take place. If so, or in case it is necessary to perform annual inspection testing if loss of value took place, the Company performs evaluation of the recoverable value of the given assets component.

The recoverable value of assets component corresponds to fair value of such assets component or centre generating cash, reduced by costs of sale or use value, depending on whichever is higher. Such value is set for individual assets, unless the given assets component does not alone generate cash incomes, which mostly are independent on those generated by other assets. If the balance sheet value of assets component is higher than the recoverable value, loss of value occurs and write down to the set recoverable value is performed. When estimating the use value, expected cash flows are discounted to their current value using the discount rate before taking into consideration of the taxation effects, that reflects current, market estimation of money value in time and the risk typical for the given asset type. Impairment losses on assets used in the ongoing business activities are recognised in other operating costs.

At each balance sheet date, the Company assesses whether there are any premises showing that the write down by virtue of loss of value, which was included in the previous periods in relation to the given assets component is needless or should be reduced. If the premises exist, the Company assesses the recoverable value of such assets component. The previously posted write down by virtue of value loss is inverted when and only when, if since the time of the last write down, a change of estimated values took place, which were used to set the recoverable value of the given asset component.. In such a case, balance sheet value of the assets component is increased to the value of its recoverable value. The increased value cannot exceed the balance sheet value of the assets component that would be set (after deducting the depreciation), if within the previous years, the write off by virtue of value loss in relation to the assets component was not posted at all. The inversion of the write down by virtue of value loss of the assets component is immediately included as income in the income statement unless the given assets component is shown in the overestimated value, in which case inversion of the write down by virtue of value loss is treated as increase of revaluation capital. Having inverted the write down, within the following periods, the amortization expense related to the given component is corrected in a way that allows within the remaining use period to systematically write off its verified balance sheet value reduced by the final value.

8.2.7. Costs of external financing

Costs of external financing related to the acquisition, construction or production of the adapted components of assets, are capitalized by the Company within the scope of cost of this assets component according to IAS 23. All other external financing costs are posted at the moment of payment.

8.3. Assets held for sale

The group includes the components of material fixed assets and investment real estates if their balance-sheet value is recovered principally through a sale transaction rather than through continuing use. The Company measures non-current assets classified as intended for sale at the lower amount than its balance-sheet value and fair value less costs necessary to complete sale, and depreciation of such assets has been stopped. Assets intended for sale are assets available for immediate sale in its present state under conditions which normally apply to the sale of such assets, the sale is highly probable and the management is committed to actively seek a buyer.

Assets held for sale are disclosed in the balance sheet as a separate item.

8.4. Investment property

The Company's investment property consists of investments in buildings and land held to earn rentals or for capital appreciation. Investment property purchased in a separate transaction is initially measured at cost, including transaction costs. In any other cases, for example, the acquisition as a result of a takeover transaction of other business entity, such assets are initially recognised at their fair value.

Subsequently to the initial recognition, all the investment property is measured at fair value.

The Company estimates investment property as at December 31, based on the valuation made at that date by an independent appraiser. 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 the fair value may need to be changed.

The fair value may be determined through:

- its revaluation on the basis of an appraisal prepared by an independent appraiser with recognition and suitable professional qualifications and also experience in evaluating properties with the location and characteristics similar to those of the property appraised;
- the analysis of data derived from an active market and current market prices for similar investment property with similar location and in a comparable condition.

Assets are recognised and derecognised as investment property only if it is clear that their intended use is changed.

Any changes to the fair value of investment property over the financial year are recognised in the income statement. If an asset is allocated from fixed assets to investment property, any difference between its fair value and its carrying amount shall be recognised in the other comprehensive income and any further changes thereto in the income statement.

If an entity determines that the fair value of an investment property under construction which has so far been measured at cost is reliably determinable, it measures that investment property under construction at its fair value. At the completion of the investment property that has been measured at its fair value, any difference between its fair value at the completion date and its earlier carrying amount shall be recognised in the income statement.

8.5. Intangible assets

Intangible assets acquired within the scope of separate transaction are included in the balance sheet according to the purchase price. Intangible assets acquired within the scope of taking over an economic entity, are included in the balance sheet according to the fair value at the day of the takeover. After initial posting, intangible assets are shown at the purchase price or cost of production reduced by write offs and write downs by virtue of value loss.

Outlays paid for intangible assets produced within own scope, except the activated outlays paid in aid of development works, are not activated and posted in the costs of the period they were paid.

Intangible assets of limited lifetime are amortized within the use time and subjected to tests related to value loss whenever there are premises indicating such value loss. Period and method of amortization of intangible assets of limited lifetime are verified at least at the end of each fiscal year. Changes in the expected period of use or expected method of consuming economic benefits resulting from the given assets component are included by means of change of either the period or method of amortization and treated as changes of estimated values. The amortization expense of intangible assets components of limited lifetime is included in the income statement in the category that corresponds to the function of the given component of intangible asset.

Intangible assets of limited lifetime and those which are not used, are being annually verified for possible value loss in relation to individual assets or at the level of the centre generating capital.

8.5.1. Cost of research and development work

The costs of research works are included in the income statement at the moment they are paid. Outlays paid for the development works performed within the scope of the given company are transferred to the following period, if it is expected that they can be recovered in the future. After initial posting of outlays for development works, the model of historical costs is applied, which requires that assets components are posted according to the purchase prices reduced by the cumulated amortization and cumulated write downs by virtue of value loss. Any outlays transferred to the following period are amortized within the expected period of receiving profits on sale from the given company.

Costs of development works are each year subjected to evaluation from the point of view of possible value loss if an asset component has not yet been put into use or more frequently, if during the reporting period, there shall be a premise of value loss indicating that their balance sheet value would not be recovered.

At each balance sheet date, costs of development work in progress, are presented among intangible assets as separated item “Intangible assets in progress”.

Summary of principles applied in relation to the intangible assets of the Company, is as follows:

	Patents and licences	**Cost of development works**	**Computer software**
Lifetime	In case of patents and licences used based on agreements for definite period of time, such time is adopted considering additional period for which the use can be extended.	3 years	2 years
Applied amortization method	Linear method	Linear method	Linear method
Internally produced or acquired	Acquired	Internally produced	Acquired
Verification as regards value loss	Annual assessment whether premises on value loss exist	Annual assessment whether premises on value loss exist	Annual assessment whether premises on value loss exist

Profits of losses resulting from removing the intangible assets from the balance sheet are assessed according to the difference between incomes on sales net and the balance sheet value of the given asset component and are posted in the income statement at the moment they are removed from the balance sheet.

8.5.2. Goodwill

The goodwill by virtue of taking over an economic entity is initially posted according to the purchase price representing the surplus of costs of merging economic units over the share of the entity taking over in fair value net of possible to be identified assets, liabilities and conditional liabilities. After the initial posting, goodwill is disclosed according to the purchase price reduced by any cumulated write downs by virtue of value loss. Tests for value loss are carried out once per year or more frequently, if any premises exist. The goodwill is not subject to amortization.

At the day of taking over, the goodwill is allocated to each of the centre generating cash that could make use of the merge synergy. Each of the centres or set of centres which are assigned with the goodwill should:

- correspond to the lowest level in the Company where the goodwill is monitored for the external management needs and
- be no higher than one segment of business activity according to the definition of segment specified based on IFRS 8 *Operational segments before aggregation*.

Loss of value is set by estimating the recoverable value of the centre generating cash, to which the given goodwill was allocated. In case when recoverable value of the centre generating cash is lower than the balance sheet value, depreciation by virtue of loss of value is posted. In case when the goodwill represents a part of the centre generating cash and part of the company shall be sold within the scope of this centre, while establishing profits or losses on sale of such business, the goodwill related to the sold business shall be included to its balance sheet value. In such circumstances, the sold goodwill is established based on relative value of sold business and the value of retained part of the cash generating centre.

8.6. Financial instruments

The financial assets can be divided to the following categories:

- financial assets kept until maturity,
- financial assets assessed according to the fair value by the financial result,
- credits granted and own receivables,
- financial assets available for sale.

The financial liabilities are divided to:

- financial liabilities assessed according to the fair value by the financial result,
- financial liabilities assessed at amortized cost.

The financial assets kept to the maturity are investments of specified or possible to be specified payments and determined maturities, which the Company intends to sell and is able to keep them until that time, except for loans and own receivables of the Company. The financial assets kept to maturity are assessed according to the amortized costs using the effective interest rate. The financial assets kept to maturity are qualified as fixed assets if their maturities exceed 12 months since the balance sheet date.

The financial assets purchased in order to generate profit thanks to short-term variations of price, are classified as financial assets assessed in fair value by the financial result. The financial assets assessed in fair value by the financial result are assessed in fair value considering their market value at the balance sheet date. Changes in the fair value of these financial assets are taken into account in incomes or financial costs, except the change of value of currency contract with fixed date. The financial assets assessed in the fair value by the financial result are accounted for current assets if the Management Board intends to realize them within 12 months since the balance sheet date.

Loans granted and own receivables are financial assets not accounted for derivative instruments, of fixed or possible to be fixed payments, not quoted at the active market. The loans granted are recognised at the amortised cost. They are included to current assets unless their maturity does not exceed 12 months since the balance sheet date. Loans granted and own receivables with maturity exceeding 12 months from the balance sheet date are disclosed as fixed assets.

The remaining financial assets are the financial assets available for sale. The financial assets available for sale are posted according to the fair value without deducting transaction costs, considering market value at the balance sheet date. In case of absence of the exchange quotation at the active market and if it is not possible to reliably specify their fair vale using alternative methods, the financial assets available for sale are assessed at the purchase price corrected by the depreciation by virtue of value loss, if they were assessed in historical values.

Positive and negative difference between the fair value and the purchase value, after reducing by the deferred tax, of assets available for sale, if the market price exists that is set at the controlled active market or of which the fair value can be set in other reliable manner, relates to the reserve capital from the revaluation. Drop of value of assets available for sale caused by loss of value is posted at the income statement as the financial cost.

The derivative instruments, which are not specified as security instruments, are classified as financial assets or liabilities assessed according to fair value by the financial result and shown in fair value with the assessment effect posted in the income statement.

The Company concludes contracts with investors, subcontractors and suppliers in foreign currencies which terms meet the criteria of built-in derivative instruments. Due to the fact that the concluded contracts which are not the financial instruments are expressed in currencies in which contracts for supply of specified goods or services are commonly concluded at the national market, the Company does not perform assessment of the built-in financial instruments separately from the main contract.

The financial assets component is removed from the balance, when the Company loses control over contractual rights composing the given financial instrument. This is in case of sale of the instrument or when all cash flows attributed to the given instruments pass to an independent third party. Component of the financial assets is given in the balance sheet when the Company becomes a party to the contract, from which the assets component result.

Purchase or sale of the financial assets is recognized at the moment of performing the transaction. At the moment of the initial posting, they are assessed at the purchase price, i.e. fair value including the transaction costs.

Loss of financial assets value

At each balance sheet date, the Company assesses whether impartial premises of value loss by the financial asset component of financial assets group exist. If any of the premises exist, the Company shall test financial assets for impairment. Negative test results are recognised in the income statement for a given period.

Financial liabilities

The financial liabilities are assessed at the moment of their positing in the books at fair value. During the initial assessment, costs of transactions are included, except for financial liabilities accounted for the category assessed at fair value by the financial result. The transaction costs of sale of the financial liabilities component are not taken into account during further assessment of such liabilities. Component of the financial liabilities is given in the balance sheet when the Group becomes a party to the contract, from which the financial liability results.

Financial liabilities at fair value through profit or loss

This category includes two groups of liabilities: financial liabilities destined for turnover and financial liabilities determined at the moment of their initial posting as assessed at fair value by the financial result. The financial liabilities destined for turnover are liabilities which were incurred mostly for sale or repurchase within close time frame or represent the part of portfolio of specified financial instruments which are managed in common and for which it can be confirmed that they generate short-term profits or which represent the derivative instruments.

Within the Company, the financial liabilities assessed at fair value by the financial result include derivative instruments (the Company does not apply the security accounting) of negative fair value. Liabilities accounted for the financial liabilities assessed at the fair value, are assessed at each reporting date at fair value and all profits or losses are posted to incomes or losses on operational business. Assessment of the derivative instruments at fair value is performed at the balance sheet date and at each end of the reporting period based on the assessments performed by the banks realizing the transactions. Fair value of the debenture instruments is represented by future cash flows discounted by the current market interest rate proper for similar instruments.

Financial liabilities assessed at amortized cost.

Remaining financial liabilities, not included in the financial liabilities assessed at fair value by the financial result, are accounted for the financial liabilities assessed at amortized cost. In this category, the Company includes mainly trade liabilities and credits and loans incurred, as well as liabilities arising from lease, factoring and bonds. Liabilities included in this category are assessed at the amortized costs, using the effective interest rate.

8.7. Financial derivatives

The derivative financial instruments used by the Company in order to secure against the risk related to currency exchange rate differences, are currency contracts of forward type. These derivative financial instruments are assessed according to the fair value. The derivative instruments are posted as financial assets when their value is positive and as financial liabilities in case the value is negative.

Profits and losses by virtue of the fair value change of the derivative instruments, which do not meet the conditions that allow application of special principles of security accountancy, are directly posted in the income statement.

Fair value of currency forward contract is set by referencing to current exchange rates with fixed date (forward) present in case of contracts of similar character.

8.8. Inventory

Inventory is assessed according to the purchase price or costs of production not higher than their sale price possible to be achieved at the balance sheet date.

The production cost does not include the following costs:

- resulting from unused production capacities and production losses,
- storage costs, unless its payment is necessary during the production process,
- margin on internal turnover (margin on services performed by auxiliary business in aid of the main business and margin on internal sale between different divisions of the main business), that is subject to elimination in relation to the costs of internal turnovers,
- general cost of management and costs of sale, marketing and distribution.

Expenditure of inventory is assessed at prices (costs) of these assets components, which the entity purchased (manufactured) earlier – applying FIFO method (First-In-First-Out). The write downs on the inventory made in relation to permanent loss of value or caused by assessment leading their value to sales price possible to be obtained, reduce the item value in the balance sheet and are posted in the own cost on sale.

Inversion of the write downs on the inventory value is posted as reduction of own costs on sale.

Sale price possible to be obtained is the estimated sale price made during the business operations, reduced by the costs of finishing and estimated costs necessary to complete the sale.

8.9. Trade receivables and other receivables

Trade receivables whose maturity is usually 30 working days are recognised and disclosed at their initially invoiced amounts less any write downs of bad debts. In case the money in time influence is significant, value of receivables is set by discounting the expected future cash incomes at the current value, using the discount rate reflecting the actual market estimation of the value of money in time. If the method consisting in discounting is applied, the increase of receivables in relation to the time is posted as financial incomes.

In case the receivables are threatened, disputable, asserted in court, vindicated or doubtful due to any other reasons, specific write downs are created in full amount of the receivables value reduced by the fair value of possessed reliable securities. The write down of doubtful receivables value is estimated when vindication of the whole amount is no longer probable. Such receivables include, in particular, receivables that are overdue more than 180 days. Bad receivables are written off if they are found impossible to collect. The write downs on receivables reduce their value in the balance sheet and are posted to own cost on sale or financial costs adequately, based on the type of receivables the write down applies to. Inversion of the write downs on the receivables value is posted as reduction of own costs on sale. In certain events, write downs of receivables may decrease revenues from sales.

8.10. Cash and cash equivalents

Case and short term investment shown in the balance sheet include cash in bank and cash register and short term investments of initial maturity not exceeding three months.

8.11. Equities

Equities are posted in the accountancy books with distribution to types and according to principles stipulated by the law and articles of association of the Company.

Basic capital is shown according to the nominal value, in the amount in conformity with the articles of association of the Company and entry to the commercial register.

Any declared, but unpaid, contributions to share capital are recognised in called-up share capital. Own shares and due contributions in aid of the share capital reduce the equity of the Company.

Reserve capital is created according to the stipulation of the commercial law, that necessitate that equity is increased by at least 8% of the profit in the given fiscal year, until the capital reaches at least on third of the initial capital.

Capital on sale of shares above their nominal value is created from the price emission surplus over their nominal value.

Costs of shares emission incurred while establishing the joint stock company or increasing the initial capital, reduce the capital on shares sale above their nominal value to the value of emission surplus over the nominal value of shares.

Other reserve capital comprises:

- previous years' profits/losses,
- actuarial gains (losses).

Retained earnings include the profit/loss for the current reporting period.

8.12. Interest bearing bank credits, loans and debt securities

At the moment of initial posting, all bank credits, loans and debt securities shall be posted according to the purchase price corresponding to the fair value of cash, reduced by costs related to obtaining the credit or loan.

After the initial posting, the interest bearing credits, loans and debt securities and liabilities are then assessed according to the amortised cost using the method of effective interest rate.

When establishing the amortized cost, one considers the costs related to obtaining the credit or loan and discounts or premiums obtained while settling the liability.

Profits and losses are posted in the income statement at the moment of removing from the balance sheet and also as a result of adding the write off.

8.13. Trade liabilities and other liabilities

Short term liabilities by virtue of supplies and services are posted in the amount that needs to be paid. The financial liabilities which are not financial instruments assessed in the fair value by the financial result, are assessed according to the amortized cost using the method of effective interest rate.

Financial liabilities other than those assessed at the fair value by the financial result are assessed at the balance sheet date, according to the amortized cost (i.e. discounted using the effective interest rate method). In case of short term liabilities with maturity up to 365 days, assessment corresponds to the amount that needs to be paid.

8.14. Provisions

The provisions are created when the Company is burdened with an obligation (legal or customary) resulting from the past events, and when it is probable that meeting this obligation shall cause the outflow of economic benefits and reliable estimation of the liability amount may be performed. If the Group expects that cost covered by the provision shall be returned, for example based on the insurance contract, then such return is posted as separated component of assets, but only when it is practically sure that the return shall take place. Costs related to the given provision are posted in the income statement after reduction by any returns.

In case the money in time influence is significant, value of provision is set by discounting the expected future cash incomes at the current value, using the gross discount rate reflecting the actual market estimation of the value of money in time and possible risk related to the given liability. If the method consisting in discounting is applied, the increase of provision in relation to the time is posted as financial costs.

8.14.1. Severance and pension payments and jubilee prizes

According to the company remuneration system, employees of the Company are entitled to jubilee prizes and severance and pension payments. The jubilee prizes are paid to the employees who worked for the set amount of years. The severance payments are paid one time at the moment an employee retires. The amount of severance and pension payments and jubilee prizes depends on the seniority and average remuneration of an employee. The Company creates a provision for future liabilities by virtue of severance and pension payments and jubilee prizes in order to assign costs to periods which they relate to. According to IAS 19, the jubilee prizes are long term employee benefits and severance payments are programs of specified services after the employment period. Current value of these liabilities at the balance sheet date is calculated based on commonly accepted actuarial methods. Calculated liabilities are equal to the discounted payments which shall be made in the future considering the employment turnover and relate to the period form the balance sheet date. Demographic information and information of employment turnover are based on the history. Actuarial gains and losses arising from the measurement of retirement and pension benefit schemes are recognised in other comprehensive income in the period, in which they arise, and actuarial gains (losses) arising from the measurement of jubilee prizes are recognised in the income statement. Other expenses related to the aforementioned benefits are recognised in profit or loss on a one-off basis in the period, in which they are incurred.

8.15. Accruals

Prepayments and accruals include in particular:

- rents paid in advance,
- insurances,
- subscriptions,
- inspection repairs,
- outsourced services paid in advance that shall be performed in the future periods.

Prepayments are accounted for in relation to the lapse of time or the amount of benefits. Time and method of settlement is justified by the character of settled costs, providing caution principle.

In case of prepayments and accruals falling in the following periods, which settlement shall not be completed within 12 months since the balance sheet date, such settlements are presented as a separate item in the balance sheet related to long term prepayment and accruals.

8.16. Incomes and costs

Incomes are posted in the amount in which it is probable that the Company shall obtain economic benefits related to the given transaction and when the amount of income can be reliably assessed.

The incomes are recognized after reducing by the goods and services tax (VAT) and rebates. When posting the incomes, the below criteria apply.

In the operational incomes, the assessment and currency transaction realization effect is presented that secures long term construction contract concluded in foreign currency.

8.16.1. Sale of goods and products

The incomes are posted if the significant risk and benefits resulting from the property right to the goods and products were passed on to the purchaser and when the incomes amount can be reliably assessed.

8.16.2. Construction contracts

Revenues from uncompleted long-term services completed as of the balance sheet date to a significant degree are recognised as of the balance sheet date proportionally to the degree of progression in their completion, if their amounts can be determined in a reliable manner. The progress is measured by the share of costs incurred from the day of concluding the contract to the day of setting the incomes in the estimated overhead costs of the service or by the share of the performed work in relation to the total works.

Progress set according to the above principles is used to specify the sale value in relation to the incomes value resulting from the stipulations of the concluded contract. Difference between such set (booked) sales value and the invoiced value for customers (service recipients) is posted to the "Construction contracts" item in assets - for positive differences or in liabilities - for negative differences, respectively.

If the extent of non-completed service cannot be reliably set at the balance sheet date, the income is established in the amount of costs incurred within the given reporting period, however no higher than costs which compensation by the ordering party in the future is probable.

In case when it is probable that total costs of executing the contract shall exceed the total incomes by virtue of the contract, the expected loss is posted as the cost of the period in which it was revealed.

Expenses related to the provision of uncompleted services include costs incurred from the conclusion of the appropriate contract to the balance sheet date. Production costs incurred before conclusion of the contract, related to realization of its object, are accounted for assets if the compensation of such costs in the future by the profits obtained from the ordering party is probable. Next, they are recognised as costs of construction contracts in progress.

The Company performs certain contracts based on consortium agreements, according to which it acts as the consortium leader. In accordance with IFRS 11, the Company does not recognise any revenues or expenses allocated to the consortium members in its income statement.

Simultaneously, the Company recognises in its balance sheet only such assets and liabilities as are allocated to the Company in the jointly co-controlled operation.

Principles of calculating the set incomes on sale:

Income on performing a construction and installation service covered by uncompleted contract is actually borne costs increased by the assumed margin in the given contract calculated in %.

Actual incomes booked in the given period are corrected against the incomes set in order to receive the margin stipulated in the given contract, according to the below formula:

$$Su = K/(1-m)$$

where:

Su – established sale
K – sustained actual costs
m – margin in % assumed for the given contract, resulting from the developed costs budget

Incomes established for the contracts settled in Euro are calculated according to the following principles:
- margin in % in case of contracts in Euro is calculated every month and it is a function of PLN / EUR exchange rate calculated based on the following formula:

$$M = (Pp – Kp)/Pp$$

where:

Pp – conversion incomes
Cc – conversion costs

Conversion revenues (Cr) are calculated according to the following formula:

$$Pp = Pz + Pf * krPLN/EUR$$

where:

Pz – incomes booked in Polish Zloty
Pf – incomes to be invoiced in Euro in the future
krPLN/EUR – average Euro exchange rate at the end the given month (announced by the National Bank of Poland)

Conversion costs (Kp) are calculated according to the below formula:

Kp = Kz + Kf PLN + Kf EUR * krPLN/EUR

where:

Kz – costs booked in Polish Zloty
Kf PLN – costs to be invoiced in Polish Zloty in the future
Kf EUR– costs to be invoiced in Euro in the future

The calculated conversion sale and conversion costs are put in the formula related to margin, then the calculated margin in % is put in the established sale formula.

8.16.3. Interests

Incomes by virtue of interests are posted successively along the accrual period (considering the effective interest rate method) in relation to the balance sheet value net of the given financial assets component.

8.16.4. Dividends

Dividends are posted at the moment of establishing the rights of shareholders until their collection.

8.17. Taxes

8.17.1. Current tax

Liabilities and receivables by virtue of current tax for the current period and previous periods are assessed in the amount of expected payment in aid of tax bodies (subject to return from the tax bodies) using the tax rates and regulations which legally or factually were in force at the balance sheet date.

8.17.2. Deferred tax

Deferred tax is calculated using the method of balance sheet liabilities in relation to all temporary differences present at the balance sheet date between the tax value of assets and liabilities and their balance sheet value shown in the financial statement.

Provision for the deferred tax is posted in relation to all positive temporary differences:

- except the situation where the provision for deferred tax is created as a result of the initial posting of the goodwill and initial posting of assets component of liability during transaction that does not represent the merge of economic entities and at the moment of conclusion did not influence the gross financial result and income subject to taxation or tax loss and
- in case of negative temporary differences resulting from the investment in subsidiaries or affiliated entities and shares in joint ventures – except the situation where the period of inverting the temporary differences are subject to the investor’s control and where it is probable that in the predictable future, the temporary differences shall not invert.

Assets by virtue of deferred tax are posted in relation to all negative temporary differences as well as not used tax assets and not used tax losses transferred to the following years in the amount in which it is probable that the taxable income shall be obtained that shall allow using the above mentioned difference, assets and losses:

- except the situation where the assets by virtue of the deferred tax related to negative temporary differences are created as a result of the initial posting of the assets or liabilities component during transaction that does not represent the merge of economic entities and at the moment of conclusion did not influence the gross financial result and income subject of taxation or tax loss and
- in case of negative temporary differences by virtue of the investment in subsidiaries or affiliated companies and shares in joint ventures, assets component by virtue of deferred tax is posted in the balance sheet only in the amount in which it is probable that in the predictable future, the above mentioned differences shall invert and taxable income shall be obtained that shall allow deducting negative temporary differences.

The balance sheet value of the assets component by virtue of deferred tax is verified at each balance sheet date and is subject to gradual reduction by the amount which is no longer probable to obtain the taxable income sufficient to partially or completely execute the assets component by virtue of deferred income tax.

Deferred tax assets and deferred tax liabilities are assessed using the tax rates which according to expectations shall be in force during the period when the assets component shall be executed or provision settled, assuming as the base the tax rates (and tax regulations) applicable at the balance sheet date or which applicability in the future is sure at the balance sheet date.

The income tax related to the items posted directly in equity is posted in the equity, not in the income statement.

The Company compensates the assets by virtue of deferred income tax with the reserves by virtue of deferred income tax when and only when it possesses the option to execute the legal right to performing compensations of receivables with reserves by virtue of current tax and the deferred income tax is related to the same taxpayer and the same tax body.

8.18. Goods and services tax

Incomes, costs, assets and liabilities are posted after reducing by the goods and services tax value, except:

- - when the goods and services tax paid during the purchase of assets or services is not possible to be recovered from the tax bodies; then it is posted appropriately as a part of the purchase price of assets component or as a part of cost item
- - receivables and liabilities which are disclosed considering the goods and services tax amount.

The goods and services tax net amount that is possible to be recovered or payable in aid of the tax bodies is posted in the balance sheet as a part of receivables or liabilities.

8.19. Net profit per share

The net profit per share for each period is calculated by way of dividing the net profit for the given period by the weighted average number of shares during the given reporting period. Diluted net profit per share for each period is calculated by way of dividing the net profit for the given period by the sum of the weighted average number of ordinary shares during the given reporting period and all potential diluted shares.

Shares are included in the weighted average number of shares from the date consideration is receivable (which is generally the date of their issue). Ordinary shares issued as a part of the payment transferred at the merge of the entities are considered in determining the weighted average number of shares from the merge date. Ordinary shares which can be issued if certain conditions are met (shares issued conditionally) are treated as present during the period and included in the calculation of profit per share only from the date on which there has been compliance with all the required conditions. Ordinary shares occurring during the year which are contingently returnable are not treated as present and are excluded from the calculation of basic profit per share as long as they are subject to possible return.

9. Standards and amendments to standards adopted by the IASB, but not yet approved by the EU

In these separate financial statements, the Company has decided no 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 new standards, amendments to standards and new interpretation listed below, which as at March 21, 2017 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 approve this temporary standard for application in the EU until its final version has been issued;
- **IFRS 14 Leases** (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 (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 (effective for annual periods beginning on or after January 1, 2018 or as at the first application of IFRS 9 Financial Instruments);

- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (the entry in force has been deferred until the research project on the equity method has been concluded);
- **Amendments to IFRS 15 Revenue from Contracts with Customers** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2018);
- **Amendments to IAS 7 Statement of Cash Flows** – Disclosure Initiative (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 (effective for annual periods beginning on or after January 1, 2017);
- **Amendments to IAS 40 Investment Property** – Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- **Amendments to various standards – Annual Improvements to IFRS Standards 2014–2016 Cycle** – the amendments made under the annual improvement implementation procedure to the IFRS (IFRS 1, IFRS 12 and IAS 28) were mainly focused on clarifying guidance and wording (Amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2017, and Amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018);
- I**FRIC 22 Foreign Currency Transactions and Advance Consideration** (effective for annual periods beginning on or after January 1, 2018).

According to the Company's estimates, the aforementioned new standards and amendments to the existing standards would have no significant impact on the financial statements, if they were adopted by the Company as at the balance sheet date.

Still, the hedge accounting for a portfolio of financial assets or liabilities, whose principles has not been approved for application in the EU, continue to remain outside the regulations approved for application in 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
As at the approval of these financial statements, the following new standards and amendments to the existing standards have been issued by the IASB and approved for application in the EU, but have not yet become effective:

- **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).

10. Effect of application of new accounting principles and changes to the accounting policy

Amendments to standards and interpretations applied for the first time in 2016

The following amendments to the existing standards issued by the International Accounting Standards Board ("IASB") and approved for application in the EU shall enter into force in 2016:

- **Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures** – Entities: Applying the Consolidation Exception – approved for application in the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018);
- **Amendments to IFRS 11 Joint Arrangements** – Accounting for Acquisitions of Interests in Joint Operations – approved for application in the EU on November 24, 2015 (effective for annual periods beginning on or after January 1, 2016);

- **Amendments to IAS 1 Presentation of Financial Statements** – Disclosure Initiative – approved for application in the EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016);
- **Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets** – Clarification of Acceptable Methods of Depreciation and Amortisation – approved for application in the EU on December 2, 2015 (effective for annual periods beginning on or after January 1, 2016);
- **Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture** – Bearer Plants – approved for application in the EU on November 23, 2015 (effective for annual periods beginning on or after January 1, 2016);
- **Amendments to IAS 19 Employee Benefits** – Defined Benefit Plans: Employee Contributions – approved for application in the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015);
- **Amendments to IAS** 27 Separate Financial Statements – Equity Method in Separate Financial Statements – approved for application in the EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016);
- **Amendments to various standards – Annual Improvements to IFRS Standards 2010–2012 Cycle** – the amendments made under the annual improvement implementation procedure to the IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) were mainly focused on clarifying guidance and wording– approved for application in the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015).
- **Amendments to various standards – Annual Improvements to IFRS Standards 2012-2014 Cycle** – the amendments made under the annual improvement implementation procedure to the IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) were mainly focused on clarifying guidance and wording – approved for application in the EU on December 15, 2015 (effective for annual periods beginning on or after January 1, 2016).

The aforementioned amendments to the existing standards have not had any significant impact on the Company's financial statements for 2006. IAS 41 Agriculture: Bearer Plants does not apply to the operations of the Company.

- **Changes introduced by the Company itself**

In the period covered by the financial statements for 2016, changes were made to the principles of accounting and preparing financial statements in comparison to those disclosed in the Company's financial statements for 2015 published on March 21, 2016.

In 2016, the Company changed the disclosure method for deferred tax assets and provisions for deferred income tax in the balance sheet. The change made involves offsetting deferred income tax assets against provisions for deferred income tax. In the opinion of the Management Board, such a disclosure method allows for the balance sheet items to be presented in a more reliable manner.
In the approved annual financial statements for the period of 12 months ended on December 31, 2015, the Company disclosed both deferred income tax assets and provisions for deferred income tax in their full amounts. In keeping with the change made, the current financial statements reflect the aforementioned change and therefore the balance sheet total is lower by PLN 13,128 thousand. In 2016, the effect of the offset on the balance sheet total was PLN 30,472 thousand. Please find the effect of the change on the balance sheet as at December 31, 2015 presented in the table below.

(data in PLN thousand, unless indicated otherwise)

Assets	31.12.2015	Netting deferred tax assets and deferred tax liabilities	31.12.2015
	Published		Modified
Non-current assets	**632 789**	**(13 128)**	**619 661**
Deferred tax assets	19 715	(13 128)	6 587
Current assets	**299 500**	**-**	**299 500**
Total assets	**932 289**	**(13 128)**	**919 161**
Equity and liabilities			
Total equity	**613 327**	**-**	**613 327**
Long-term liabilities	**60 527**	**(13 128)**	**47 399**
Deferred tax liabilities	13 128	(13 128)	-
Short-term liabilities	**258 435**	**-**	**258 435**
Total equity and liabilities	**932 289**	**(13 128)**	**919 161**

11. Selected financial data converted to Euro

Average exchange rates of Polish Zloty in relation to Euro within the period covered by the financial statement:

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
31.12.2016	4,3757	4,2355	4,5035	4,4240
31.12.2015	4,1848	3,9822	4,3580	4,2615

*Average exchange rate in force at the last day of each month within the given fiscal year.

Basic items in the balance sheet converted into EUR

	31.12.2016		31.12.2015	
	kPLN	kEUR	kPLN	kEUR
Non-current assets	657 078	148 525	619 661	145 410
Current assets	356 980	80 692	299 500	70 280
Total assets	**1 014 058**	**229 217**	**919 161**	**215 690**
Equity	625 311	141 345	613 327	143 923
Long-term liabilities	80 736	18 249	47 399	11 123
Short-term liabilities	308 011	69 623	258 435	60 644
Total equity and liabilities	**1 014 058**	**229 217**	**919 161**	**215 690**

When converting the data of the balance sheet, the exchange rate established by Narodowy Bank Polski [The National Bank of Poland] at the last day of the turnover year was adopted.

Basic items of consolidated income statement in conversion to Euro:

	For the period 12 months ended 31.12.2016		For the period 12 months ended 31.12.2015	
	kPLN	kEUR	kPLN	kEUR
Sales revenues	826 198	188 815	763 399	182 422
Cost of goods sold	(787 275)	(179 921)	(700 208)	(167 322)
Gross profit (loss) on sales	38 923	8 894	63 191	15 100
Operating profit (loss)	9 714	2 220	30 094	7 191
Gross profit (loss)	29 730	6 794	41 638	9 950
Net profit (loss) from continued operations	28 699	6 559	35 161	8 402
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	**28 699**	**6 559**	**35 161**	**8 402**

When converting the data of the income statement, average Euro exchange rated was adopted, calculated as the arithmetical mean of rates in force at the last day of each month within the given fiscal year, established by Narodowy Bank Polski [The National Bank of Poland] at this day.

Basic items of the statement of cash flows in conversion to Euro:

	For the period 12 months ended 31.12.2016		For the period 12 months ended 31.12.2015	
	kPLN	kEUR	kPLN	kEUR
Cash flows from operating activities	(94 093)	(21 504)	206 799	49 417
Cash flows from investment activities	(12 228)	(2 794)	7 411	1 771
Cash flows from financial activities	(10 884)	(2 487)	(92 298)	(22 055)
Total net cash flows	**(117 205)**	**(26 785)**	**121 912**	**29 132**

When converting the above data of the statement of cash flows, average Euro exchange rate was adopted, calculated as the arithmetical mean of rates in force at the last day of each month within the given fiscal year, established by the National Bank of Poland at this day.

	31.12.2016		31.12.2015	
	kPLN	kEUR	kPLN	kEUR
Cash at start of period	136 025	31 920	14 113	3 311
Cash at end of period	**18 820**	**4 254**	**136 025**	**31 920**

To calculate the above data of the cash flow account, the following rates were adopted:

- exchange rate set by Narodowy Bank Polski [The National Bank of Poland] at the last day of each fiscal year - for item "Cash at the end of the period".
- exchange rate set by Narodowy Bank Polski [The National Bank of Poland] at the last day of the fiscal year prior to the given fiscal year - for item "Cash at the beginning of the period".

The Euro exchange rate on the last day of the financial year that ended on 31 December 2014 was PLN 4.2623.

(data in PLN thousand, unless indicated otherwise)

12. Revenue from sales

	For the period 12 months ended	
	31.12.2016	31.12.2015
Sales revenues	Audited	Audited
Revenues from sale of construction services	811 249	748 299
Revenues from sale of goods and materials	2 686	1 450
Revenues from sale of other products and services	12 263	13 650
Total	**826 198**	**763 399**

	For the period 12 months ended	
	31.12.2016	31.12.2015
Sales revenues	Audited	Audited
Contracts	811 249	748 299
Other sales	14 949	15 100
Total	**826 198**	**763 399**

	For the period 12 months ended	
	31.12.2016	31.12.2015
Cost of goods sold	Audited	Audited
Contracts	759 785	675 098
Other sales	27 490	25 110
Total	**787 275**	**700 208**

	For the period 12 months ended	
	31.12.2016	31.12.2015
Sales margin	Audited	Audited
Contracts	51 463	73 201
Other sales	(12 540)	(10 010)
Total	**38 923**	**63 191**

Trakcja PRKiI generates all its revenues in Poland. The revenues from sales to PKP PLK constitute approximately 78.9% of the total revenues from sales.

The Company's revenues are recognised in a single operating segment, which therefore is the reporting segment.

(data in PLN thousand, unless indicated otherwise)

13. Costs of operation:

Costs by type:

	For the period 12 months	
	31.12.2016	31.12.2015
	Audited	Audited
Depreciation	12 197	10 798
Consumption of materials and energy	267 975	174 337
External services	397 409	453 353
Taxes and charges	3 832	3 179
Payroll	85 032	82 660
Social security and other benefits	19 565	18 433
Other types of costs	18 066	11 282
Total costs by type	**804 076**	**754 043**
Change in inventories, products and prepayments	25 383	441
Cost of manufacture of products for the entity’s own needs	(17 030)	(20 618)
Cost of sales, marketing and distribution (negative value)	(2 132)	(1 718)
General and administrative costs (negative value)	(25 275)	(33 332)
Manufacturing cost of products sold	**785 022**	**698 815**
Value of materials and goods sold	**2 253**	**1 394**
Cost of goods sold	**787 275**	**700 208**

Costs of remunerations and other employees benefits:

	For the period 12 months	
	31.12.2016	31.12.2015
	Audited	Audited
Costs of payroll and employment termination benefits	79 939	72 439
Social security costs	14 961	13 832
Provisions for retirement pay and disability benefits	(331)	915
Provision for jubilee awards	1 254	1 226
Provision for unused leaves	1 982	1 835
Provision for bonuses	1 288	1 649
Provision for non-competition and compensation	900	4 596
Employee benefits under Employee Pension Program	615	701
Other employee benefits	3 989	3 900
Total	**104 597**	**101 093**

The company has implemented for its employees the Employee Pension Plan (EPP) entered in to the Insurances and Pension Funds Supervision Committee under the number RPPE 75/01. In 2001, the contract has been concluded related to payment by the Company of employee contributions and the plant pension agreement between it (former PKRE SA) and Labour Unions operation in the Company. All employee pension agreements and annexes to these agreements were concluded according to a uniform model. In 2006, an annex has been signed to the plant agreement which adapted the EPP to the regulations of the changed act on employee pension programs. Within the Program, the employer transfers 4% of gross employee remuneration, which is the basis for calculating pension contributions to the selected fund. Participation of employees in the Program is voluntary and employees with at least three month seniority in the Company can enter the program.

(data in PLN thousand, unless indicated otherwise)

Depreciation and amortization of fixes assets and intangible assets and impairment losses are recognised in the income statement:

	For the period 12 months	
	31.12.2016 Audited	31.12.2015 Audited
Items recognised in cost of goods sold		
Depreciation of fixed assets	10 467	9 211
Depreciation of intangible assets	741	742
Total	**11 208**	**9 953**
Items recognised in cost of sales, marketing and distribution		
Depreciation of fixed assets	4	4
Depreciation of intangible assets	-	-
Total	**4**	**4**
Items recognised in general and administrative costs		
Depreciation of fixed assets	346	412
Depreciation of intangible assets	639	429
Total	**985**	**841**
Depreciation of fixed assets	10 817	9 627
Depreciation of intangible assets	1 380	1 171
Total	**12 197**	**10 798**

14. Other operating revenues

	For the period 12 months	
	31.12.2016 Audited	31.12.2015 Audited
Other, including:	**3 548**	**3 622**
Release of the provision for litigation	650	-
Received penalties and fines	384	1 079
License fees, patents	280	288
Inventory surpluses	-	86
Overpaid social security contributions	536	-
Reimbursed costs from tenders in Denmark	571	-
Profit on sale of non-financial non-current assets	-	102
Redeemed liabilities	164	1 377
Profit on sale of non-financial non-current assets	221	302
Valuation of investment properties	177	-
Other	565	388
Total	**3 548**	**3 622**

(data in PLN thousand, unless indicated otherwise)

15. Other operating costs

	For the period 12 months 31.12.2016 Audited	31.12.2015 Audited
Restructuring costs	3 905	-
Paid costs of litigation	243	-
Donations made	31	34
Value of liquidated non-financial assets	268	27
Write-off of receivables	52	313
Reorganization costs of the production division	131	252
Paid fines, compensation	328	329
Value of liquidated inventories	-	32
Other	392	682
Total	**5 350**	**1 669**

16. Financial revenues

	For the period 12 months 31.12.2016 Audited	31.12.2015 Audited
Financial revenues from interest, including:	743	1 655
- bank interest	402	333
- loan interest	194	681
- receivables	66	389
- release of provisions for liabilities	-	232
- other	81	20
Income from received dividends	25 143	15 843
Profit from exchange rate differences	-	711
Financial revenues from participation in guarantee costs	53	-
Financial revenues from resolve allowances for receivables	-	441
Other	6	-
Total	**25 945**	**18 650**

17. Financial costs

	For the period 12 months 31.12.2016 Audited	31.12.2015 Audited
Financial costs on account of interest, including:	4 080	5 000
- interest on loans and borrowings	1 173	782
- on liabilities	133	236
- on leasing	1 378	1 171
- on bonds	-	1 874
- on liability from employee benefits	225	253
- on factoring	49	493
- from established reserves for liabilities	989	56
- other	133	135
Foreign exchange loss	715	-
Costs of factoring services	199	759
Revaluation write-offs on bonds	-	176
Financial commission costs	915	932
Other financial costs	20	239
Total	**5 929**	**7 106**

(data in PLN thousand, unless indicated otherwise)

18. Income tax

18.1. Current income tax

	For the period 12 months ended	
	31.12.2016	31.12.2015
	Audited	Audited
Gross profit	**29 730**	**41 638**
Differences between gross profit (loss) and income tax base (by title)		
- temporary differences, including:	**5 601**	**10 236**
depreciation and amortisation	(863)	(705)
revaluation write-offs	(521)	(1 274)
change in provisions	28 795	(968)
valuation of investment properties at fair value	432	-
construction contracts valuation	(41 700)	27 289
valuation of construction contracts	721	1 726
accrued interest	11	(37)
provision for losses on contracts	111	363
remuneration unpaid	447	(179)
non-tax costs relating to long-term contracts	104 347	(12 568)
non-tax revenue relating to long-term contracts	(86 237)	-
financial lease agreements	1 774	(3 189)
other	(1 715)	(222)
- permanent differences, including:	**(24 289)**	**(7 540)**
received dividends	(25 143)	(15 843)
contributions to PFRON (National Disabled Persons Rehabilitation Fund)	849	634
donations made	16	34
budget interest	13	203
insurance and membership fees	443	387
VAT difference	19	26
cost of disputed contracts	(1 000)	185
revaluation write-offs	3 249	5 716
other	(2 735)	1 119
Taxable income	**11 042**	**44 335**
Deductions from income	**(15)**	**(10)**
- tax loss from previous years	-	-
- donations	(15)	(10)
Income tax base	**11 027**	**44 325**
Income tax at 19% rate	**2 095**	**8 422**
Current income tax recognised (shown) in tax declaration for the period, including:	**2 095**	**8 422**
- recognised in income statement	2 095	8 422

Income tax in the income statement:

	For the period 12 months	
	31.12.2016	31.12.2015
	Audited	Audited
Current income tax:	**2 095**	**8 422**
- current income tax charge	2 095	8 422
Deferred tax:	**(1 064)**	**(1 945)**
- related to increase and decrease in temporary differences	(1 064)	(1 945)
Total	**1 031**	**6 477**

(data in PLN thousand, unless indicated otherwise)

Income tax shown in the income statement related to abandoned business:

	For the period 12 months	
	31.12.2016	31.12.2015
	Audited	Audited
Income tax shown in income statement regarding discontinued operations	-	-

Reconciliation of an effective tax rate:

Reconciliation of income tax on the gross financial result at the statutory tax rate with income tax calculated at the Company's effective tax rate for the year ended December 31, 2016 and December 31, 2015 is presented in the following table:

	For the period 12 months	
	31.12.2016	31.12.2015
	Audited	Audited
Gross profit	**29 730**	**41 638**
Income tax at applicable income tax rate of 19%	5 649	7 911
Tax effect of the approach:		
Tax costs not constituting accounting costs	(1 578)	(1 290)
Non-tax revenues constituting accounting revenues	(5 027)	(3 346)
Non-tax costs constituting accounting costs	1 987	3 202
Income tax at effective tax rate of 3% (2015: 16%)	**1 031**	**6 477**

18.2. Income tax charged to other total income

	For the period 12 months ended	
	31.12.2016	31.12.2015
	Audited	Audited
Revaluation gains attributable to revaluation reserve		
Gross amount	(605)	-
Tax	115	-
Net amount	**(490)**	**-**
Actuarial gains/(losses)		
Gross amount	1 542	(199)
Tax	(293)	38
Net amount	**1 249**	**(161)**

18.3. Deferred income tax

Dates of realisation of deferred income tax assets and provisions for deferred income tax:

Deferred tax asset	31.12.2016	31.12.2015
	Audited	Modified
with a duration of more than 12 months after the financial year	5 015	2 776
with a duration of up to 12 months after the financial year	32 940	16 939
Total	**37 955**	**19 715**

(data in PLN thousand, unless indicated otherwise)

As at December 31, 2016, the Company did not have any unsettled tax losses.

Provisions for deferred tax	31.12.2016 Audited	31.12.2015 Modified
with a duration of more than 12 months after the financial year	10 019	9 286
with a duration of up to 12 months after the financial year	20 453	3 842
Total	**30 472**	**13 128**

(data in PLN thousand, unless indicated otherwise)

Deferred tax assets:

Title of temporary differences	1.01.2015 Audited	Increase / Decrease	31.12.2015 Modified	Increase / Decrease	31.12.2016 Audited
Provision for bonuses	1 008	(489)	519	(103)	416
Provision for the audit	11	8	19	9	28
Provision for correction works	850	234	1 084	4 725	5 809
Provision for losses on contracts	-	69	69	21	90
Provisions for retirement and pensions	896	(117)	779	(40)	739
Provision for jubilee awards	1 423	(103)	1 320	(105)	1 215
Provision for unused leaves	872	87	959	161	1 120
Valuation allowance for trade receivables	536	-	536	-	536
Valuation allowance for other current assets	414	(286)	128	(99)	29
Unrealized foreign exchange losses	15	(11)	4	(3)	1
Accrued interest on liabilities	118	(35)	83	184	267
Valuation of bonds	57	(57)	-	-	-
Interest on receivable write-offs	5	44	49	-	49
Non-tax costs related to ongoing long-term contracts	4 662	(2 388)	2 274	19 826	22 100
Surpus of invoiced revenues over actual revenues - valuation of long-term contracts	7 572	1 807	9 379	(6 857)	2 522
The positive difference between the balance sheet depreciation and the tax depreciation	64	14	78	7	85
Tax loss	-	-	-	-	-
Unpaid wages and unpaid social security contributions	231	(34)	197	85	282
Provision for costs	10	234	244	824	1 068
Others	276	1 717	1 993	(392)	1 601
Total deferred tax asset, including	**19 020**	**695**	**19 715**	**18 240**	**37 955**
influence on net profit	18 057	1 475	19 532	18 423	37 955
influence on equity	963	(780)	183	(183)	-

(data in PLN thousand, unless indicated otherwise)

Provisions for deferred income tax

Title of temporary differences	1.01.2015 Audited	Increase / Decrease	31.12.2015 Modified	Increase / Decrease	31.12.2016 Audited
Surplus of actual revenues over invoiced revenues - valuation of long-term contracts	4 850	(3 378)	1 472	1 066	2 538
Provisions for retirement and pensions	-	-	-	110	110
Non-tax revenue relating to long-term contracts	-	-	-	16 385	16 385
The negative difference between the balance sheet depreciation and the tax depreciation	4 587	148	4 735	171	4 906
Unrealized foreign exchange profits	9	(4)	5	(5)	-
Interest accrued on deposits, on financial assets	439	(363)	76	47	123
The right to perpetual usufruct	765	(10)	755	(11)	744
Revaluation of fixed assets to fair value	1 679	(1 172)	507	-	507
Investment property fair value adjustment	2 306	-	2 306	(82)	2 224
Financial lease agreements	945	606	1 551	(337)	1 214
Other	7	1 713	1 721	(1)	1 720
Total deferred tax liability, including	**15 588**	**(2 460)**	**13 128**	**17 343**	**30 472**
influence on net profit	11 483	(973)	10 510	17 359	27 869
influence on equity	4 105	(1 487)	2 618	(15)	2 603

	1.01.2015 Audited	31.12.2015 Modified	31.12.2016 Audited
Deferred tax asset	19 020	19 715	37 955
Provisions for deferred tax	15 588	13 128	30 472
Netting deferred tax assets and liabilities	(15 588)	(13 128)	(30 472)
Deferred tax asset	**3 432**	**6 587**	**7 484**
Provisions for deferred tax	**-**	**-**	**-**

(data in PLN thousand, unless indicated otherwise)

19. Suspended activity

In 2016 and 2015 there was no suspended business.

20. Profit (loss) per one share

	For the period 12 months	
	31.12.2016	31.12.2015
	Audited	Audited
Net profit (loss) from continued operations	28 699	35 161
Net profit for financial year	28 699	35 161
Net profit applied to calculate diluted earnings per share	28 699	35 161
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

	For the period 12 months	
	31.12.2016	31.12.2015
Profit (loss) per 1 share (in PLN/share):	Audited	Audited
- basic	0,56	0,68
- diluted	0,56	0,68

	For the period 12 months	
	31.12.2016	31.12.2015
Profit (loss) from continued operations per 1 share (in PLN/share):	Audited	Audited
- basic	0,56	0,68
- diluted	0,56	0,68

21. Tangible fixed assets

Fixed assets structure:

	31.12.2016	31.12.2015
	Audited	Modified
Fixed assets, including:	122 605	107 670
- land (including right of perpetual usufruct)	16 404	16 579
- buildings, premises, civil and water engineering structures	3 761	4 024
- technical equipment and machines	50 943	35 131
- vehicles	49 676	50 201
- other fixed assets	1 821	1 735
Fixed assets under construction	12 290	9 738
Total	**134 895**	**117 408**

(data in PLN thousand, unless indicated otherwise)

Ownership structure of fixed assets:

	31.12.2016 Audited	31.12.2015 Modified
Proprietary	92 238	85 487
Used on the basis of lease, rental or other agreement, including leasing agreement	42 657	31 921
Total	**134 895**	**117 408**

Changes in fixed assets:

Financial year ended 31.12.2016 Audited	**Land, buildings and structures**	**Machines and equipment**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Total**
Net book value at the beginning of the year	**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**
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**

Financial year ended 31.12.2015 Modified	**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	**24 918**	**31 539**	**45 421**	**1 997**	**9 554**	**113 429**
Increases - purchase	89	6 121	11 224	167	5 543	23 144
Other increases	-	-	-	-	892	892
Movements between groups	603	1 240	1 957	-	(3 800)	-
Sale	-	(87)	(3 476)	-	(2 451)	(6 014)
Liquidation	-	(7)	(136)	(3)	-	(146)
Depreciation	(737)	(3 675)	(4 789)	(426)	-	(9 627)
Other decreases	(1 208)	-	-	-	-	(1 208)
Reclassification to assets held for sale	(3 062)	-	-	-	-	(3 062)
Net book value at the end of the year	**20 603**	**35 131**	**50 201**	**1 735**	**9 738**	**117 408**

(data in PLN thousand, unless indicated otherwise)

As at 31.12.2015 Modified						
(Gross) cost or value from valuation	28 938	82 469	97 241	8 462	9 738	226 849
Depreciation and imparment write-offs	(8 335)	(47 338)	(47 041)	(6 727)	-	(109 441)
Net book value	**20 603**	**35 131**	**50 201**	**1 735**	**9 738**	**117 408**

Based on the right of perpetual usufruct of land, the Company has land classified in the Land, Buildings and Structures category, with the value of PLN 16,405 thousand (31/12/2015: PLN 16,579 thousand).

The Company uses, as the lessee, under the financial lease agreement, the following tangible fixed assets:

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**

As at 31.12.2015 Modified	**Land, buildings and structures**	**Machines and equipment**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Total**
Initial value	-	15 642	22 683	-	-	38 325
Accumulated depreciation	-	(2 635)	(3 769)	-	-	(6 404)
Net book value	**-**	**13 007**	**18 914**	**-**	**-**	**31 921**

Information about securities on tangible fixed assets is included in Note 51.

22. Investment property

	31.12.2016 Audited	31.12.2015 Modified
As at start of period (by type groups) - net value:	**17 602**	**17 602**
- land	13 532	13 532
- buildings, premises, civil and water engineering structures	4 070	4 070
Increases:	**399**	**-**
- land	399	-
- revaluation	399	-
- movement from fixed assets	-	-
- buildings, premises, civil and water engineering structures	-	-
- revaluation	-	-
- movement from fixed assets	-	-
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**	**17 602**
- land	13 739	13 532
- buildings, premises, civil and water engineering structures	3 435	4 070

The Company presents investment property at fair value. The fair value of the Company's investment property as at December 31, 2016 and December 31, 2015 was assessed based on valuation performed as at that date by an independent appraiser with appropriate qualifications required to evaluate real estate, as well as present experiences in such valuations performed at locations, where the Company's assets are placed. In addition, the Company assesses the obtained opinions on the fair value through the analysis of data derived from an active market and current market prices for similar investment property with similar location and in a comparable condition. These analyses are performed by persons who have knowledge of the market.

The buildings classified as investment property, which are in the possession of the Company, have been measured applying the cost and income methods. Pursuant to IFRS 13, the cost approach reflects the amount, which would be currently due, in order to reconstruct the productivity of the given component of assets (often defined as current replacement cost). In many cases, the current replacement cost method is applied to determine the fair value of material assets, which are used in combination with other assets or other assets and liabilities. Evaluated real properties belong in the category of the regional market, and the value of the construction component is defined within the cost approach with the application of the replacement cost method and using the indicator technique and integrated elements. The income approach consists in the measurement of a property based on the assumption that its purchaser will pay a price for it, whose value be dependent on the expected income that the property will generate and that the purchaser will not pay for it more than the price for which it could purchase any other property with the same profitability and risks. In accordance with the General National Appraisal Principles, the income approach is applied for determining the value of a property that generates income or is likely to generate income, provided that it is the income that is the key factor that affects its value. The basis for calculating income on the property is inflows from rentals and leases and other rights to the property, as well as other inflows. The other inflows may include, in particular, income from making a property available as locations for advertising boards, mobile phone antennae, ATMs, car parks, etc.

The fair value of land that forms part of investment property was established by way of a reference to transactional market prices for similar properties (comparison method). The comparison approach consists in determining the value of a real property with the assumption that the value of the evaluated real property is equal to the price for similar real properties, which have been traded, adjusted in accordance with the attributes, which differentiate these real properties (i.e. location, infrastructure/development status, area) and determined in account of the changes in level of prices due to the lapse of time. The sensitivity analysis indicates that the comparable valuation model is sensitive to changes of prices of real properties similar to the evaluated property.

The sensitivity analysis indicates that the market valuation model is mainly sensitive to prices of similar property and that the cost valuation model is sensitive to the replacement cost and the degree of technical wear and tear.

The establishment of the fair value takes place in account of valuation techniques relevant to circumstances and wherever sufficient data is available, with maximum use of relevant observable input data and minimum use of unobservable input data.

Below we present the influence of unobservable input data on fair value of the real property depending on the adopted valuation technique.

(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

The establishment of the fair value of the real property applied the approach of the most favourable and best use of the real property (i.e. current use of these real properties).

For land located in Warsaw, the market prices of comparable property range between PLN 509.85 per square metre and PLN 2,464.73 per square metre, and the weightings were between 0.4907 and 0.6501.

As a result of revaluation as at December 31, 2016 the investment property increased by PLN 428 thousand, and in 2015 the valuation method remained the same.

Details concerning the hierarchy of the fair value as at December 31, 2016 and December 31, 2015:

	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

	31.12.2015 Modified	Level 1	Level 2	Level 3
Investment property:	**17 602**	-	-	17 602
Office property	17 602			17 602
- land	13 532			13 532
- buildings	4 070			4 070

Level 1 – prices of market quotations from active markets for identical assets and liabilities;

Level 2 – prices from active market, but other than market prices quotations – established directly (by comparing with actual transactions) or indirectly (using techniques based on actual transactions);

(data in PLN thousand, unless indicated otherwise)

Level 3 – prices not from active markets.

During the financial year there were no transfers between levels 1, 2 and 3.

Revenues from rent and direct operational costs concerning investment properties were as follows:

	Financial year ended	
	31.12.2016	31.12.2015
	Audited	Audited
Rental income from investment property	183	187
Direct operating expenses from investment property that during the period generated rental income	(274)	(266)
Direct operating expenses from investment property that during the period did not generate rental income	-	-

No collateral was established on investment property.

23. Intangible assets

Structure of intangible assets:

	31.12.2016	31.12.2015
	Audited	Modified
Research and development costs	2 818	2 566
Goodwill	48 732	48 732
Acquired concessions, patents, licences and similar items of value, includi	2 045	2 738
- software	2 045	2 738
Other intagible assets	348	387
Intangible assets under construction	333	1 144
Total	**54 276**	**55 567**

Ownership structure of intangible assets:

	31.12.2016	31.12.2015
	Audited	Modified
Proprietary	54 276	55 567
Used on the basis of lease, rental or other agreement, including leasing agreement	-	-
Total	**54 276**	**55 567**

(data in PLN thousand, unless indicated otherwise)

Tables of intangible assets movement:

Financial 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**

Financial year ended 31.12.2015 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	**3 263**	**53 512**	**366**	**-**	**2 064**	**59 205**
Increases	-	-	1 357	390	565	2 312
Movements	-	(4 780)	1 485	-	(1 485)	(4 780)
Amortisation	(697)	-	(470)	(3)	-	(1 170)
Net book value at the end of the year	**2 566**	**48 732**	**2 738**	**387**	**1 144**	**55 567**
As at 31.12.2015 Modified						
(Gross) cost or value from valuation	5 595	48 732	6 573	390	1 144	62 433
Depreciation and imparment write-offs	(3 029)	-	(3 835)	(3)	-	(6 867)
Net book value	**2 566**	**48 732**	**2 738**	**387**	**1 144**	**55 567**

In 2016 and 2015, the Company did not recognise any expenses in the income statement, which were not capitalised in intangible assets (research and development works).

Method of determining goodwill and test for value loss

At the balance sheet date, the Company recognises goodwill of PLN 48,732 thousand (December 31, 2015: PLN 48,732 thousand) in its intangible assets. Goodwill was created as a result of acquiring and merging PRK-7 S.A. in 2009 and PRKiI S.A. in 2013 and also acquiring shares in PRK 7 Nieruchomości.

(data in PLN thousand, unless indicated otherwise)

	31.12.2016 Audited	31.12.2015 Modified
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**

Goodwill created as a result of merging with PRK-7 S.A. recognised in intangible assets (PLN 46,681 thousand) and goodwill created as a result of merging with PRKiI S.A. Recognised in intangible assets (PLN 2,051 thousand) have been allocated to a 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. As at the balance sheet date, an impairment test was performed on the goodwill assigned to the CGU, which confirmed that no basis existed for any impairment loss on the goodwill being recognised. The assumptions made for the purpose of establishing the recoverable value of the cash generating unit:

- the growth rate of 2% in the residual period (31/12/2015: 2 %);
- the EBITDA margin between 2.9% and 4.4% (31/12/2015: between 4.0 % and 4.7 %);
- the pre-tax discount rate of 11.4% (31/12/2015: 11.5 %).

The recoverable value of the cash generating unit has been calculated on the basis of the five-year cash flow projections. The Management Board established the budgeted margin on the basis of historical results, updated contract budgets, and its own forecasts concerning market development. Weighted average growth rates are in line with the forecasts presented in industry reports. The discount rate applied is a pre-tax rate that reflects certain risks other than those recognised in the cash flow projections.

Below we present the analysis of the sensitivity of the recoverable value to changes in the defined indicators used in the impairment test.

Factor applied	**Reasonably possible change of the factor**	**The impact on the recoverable amount of cash-generating unit**	
		increase	**decrease**
EBITDA	+/- 2,5%	11 415	(11 415)
WACC	+/- 0,25%	(9 392)	9 908

The Company has analysed the sensitivity of changes in EBITDA by +/- 2.5% and WACC by +/- 0.25% and concluded that a reasonable change in the assumptions would not result in any impairment loss being recognised.

(data in PLN thousand, unless indicated otherwise)

24. Investments in subsidiaries

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**		

(data in PLN thousand, unless indicated otherwise)

As at 31.12.2015

Company name	Location	Business object	Character of relation/conso lida-tion 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	29 305	-	29 305	99,70%	99,70%
PEUiM Sp. z o. o.	Białystok	construction and installation activities	subsidiary / full method	19.04.2011	385	-	385	100,00%	100,00%
PEUiM Sp. z o. o.	Białystok	construction and installation activities	subsidiary / full method	19.04.2011	204	-	204	94,62%	94,62%
Total					**412 572**	-	**412 572**		

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

(data in PLN thousand, unless indicated otherwise)

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

On November 10, 2016, a conditional share purchase agreement was concluded between Trakcja PRKiI S.A. (the purchaser) and Leonard Weiss International GmbH (the seller) which was one of the shareholders in Bahn Technik Wrocław Sp. z o.o. ("BTW"). The agreement covered the acquisition of 50% of, i.e. 4,000, shares in BTW with a nominal 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 was granted the consent of the President of UOKiK [Competition and Consumer Protection Office], and on December 30, 2016 the ownership of the aforementioned shares was transferred to Trakcja PRKiI.

Trakcja PRKiI had so far had 50% of shares in BTW. Under the agreement, the issuer has become the sole shareholder in the company. BTW performs rail works, including welding, regeneration of turnouts and assembly of railway tracks. 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 in accordance with IFRS 11 and consolidated under the equity method. The Company has been fully controlling BTW since December 30, 2016.

Payment for the acquisition of BTW (fair value)

	31.12.2016 Audited
Cash	21 500

Other costs related to the acquisition of shares (in particular, the costs of legal services and due diligence) have been recognised in the operating expenses of the current year in the income statement.

Analysis of assets and liabilities of BTW as at the acquisition of control

	Fair value 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
Prepayments	155
Long-term liabilities	**3 267**
Interest-bearing bank loans and borrowings	504
Provision for deferred tax	2 763
Short-term liabilities	**4 951**
Interest-bearing bank loans and borrowings	588
Trade and other liabilities	3 462
Provisions	657
Liabilities due to employee benefits	245
Aktywa netto	**34 394**

25. Investments in the co-controlled entity

As at 31.12.2015

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
Bahn Technik Wrocław Sp. z o. o.	Wrocław	construction and installation activities	jointly controlled / equity method	19.12.1996	2 008	-	2 008	50,00%	50,00%

(data in PLN thousand, unless indicated otherwise)

26. Co-controlled activity – contracts executed in consortiums

The Company performs certain long-term contracts based on consortium agreements, as the consortium leader. The Company recognises shares in such contracts as shares in joint ventures pursuant to IFRS 11. Therefore , the Company does not recognize in the income statement any parts of revenues or costs due to such contracts, allocated to consortium members.

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

Contract name	Country	Company's share as at 31.12.2016	Company's share as at 31.12.2015
Modernization of the railway line E65 / CE65 on the section Warsaw - Gdynia - the area of Local Steering Control (LCS) of Iława, LCS Malbork	Poland	69,0%	69,0%
Modernization of the railway line E65 / CE65 on the section Warsaw – Gdynia – area of LCS Działdowo	Poland	70,5%	70,5%
Modernization of the railway line E30 / C-E30 on the section Kraków – Rzeszów, stage III (Podłęże - Bochnia)	Poland	96,9%	96,9%
Revitalization of the railway line No. 144 section Fosowskie - Opole	Poland	67,1%	67,1%
Modernization of the railway line E59 on the section Wrocław – Poznań, stage II (Wrocław - Dolnośląskie voivodeship section)	Poland	40,4%	40,6%
Modernization of the railway line E30 / C-E30 on the section Kraków – Rzeszów, III stage (Dębica - Sędziszów Małopolski)	Poland	86,2%	86,2%
Modernization of the railway line E30, II stage Zabrze – Katowice – Kraków, Tender No. 1 - Modernization of the sections: Jaworzno Szczakowa – Trzebinia (km 15,810 -29,110 of line No. 133), Jaworzno Szczakowa – Sosnowiec Jęzor (km 0,000 – 6,847 of line No. 134)	Poland	78,3%	78,3%
Modernization of the railway line No. 358 on the section Zbąszynek – Czerwieńsk together with the construction of railway switchboard Pomorsko – Przylep	Poland	93,7%	93,7%
Connection of Korczowa Logistic Park - Stage II (kV line construction Przemyśl Radymno)	Poland	77,8%	77,8%
Modernization of the railway line No. 20 within the railway station Warszawa Gdańska in conjunction with the line E 65 and the underground station A 17 Gdansk Station Stage II	Poland	59,5%	59,5%
Construction of railway E59 line engineering objects: A part, the object in km 145,65	Poland	21,5%	29,1%
Construction of railway E59 line engineering objects: C part, the object in km 160,857	Poland	8,9%	20,3%
Realization of construction works, Tender No. 1 - modernization of the section Jaworzno Szczakowa-Trzebinia (km 1,150 - 0,000 of line No. 134, km 15,810 - 29,110 of line No. 133)	Poland	57,3%	-

The table below presents revenues and costs allocated to consortium members, concerning contracts executed within the scope of the aforementioned consortiums, which were not recognized in the Company's income statement.

	Financial year ended 31.12.2016 Audited	Financial year ended 31.12.2015 Audited
Sales revenues	39 218	149 396
Cost of goods sold	(40 048)	(149 909)
Gross profit (loss) on sales	**(830)**	**(513)**

(data in PLN thousand, unless indicated otherwise)

In its balance sheet as at December 31, 2016, the Company did not disclose trade receivables and trade liabilities allocated to consortium partners in the amount of PLN 16,743 thousand (December 31, 2015: PLN 2,182 thousand).

27. Other financial assets

	31.12.2016 Audited	31.12.2015 Modified
Financial assets held to maturity	**10 570**	**16 499**
Bank guarantees deposits	7 355	13 679
Loans granted and receivables	3 215	2 820
Total	**10 570**	**16 499**
including:		
- recognised as non-current assets	4 734	4 671
- recognised as current assets	5 836	11 828

In 2016, there was no impairment of individual components of financial assets.

28. Accruals

Structure of prepayments and accruals of costs:

	31.12.2016 Audited	31.12.2015 Modified
Prepayments, including:	5 983	10 165
- insurance and insurance guarantees	3 029	7 160
- PKP (Polish Railways) identification documents	-	96
- repair and maintenance of wagons, locomotives	2 954	2 909
Other prepayments and accruals	273	287
Total	**6 256**	**10 452**

Age structure of prepayments and accruals of costs:

	31.12.2016 Audited	31.12.2015 Modified
Long-term	2 275	3 246
Short-term	3 981	7 206
Total	**6 256**	**10 452**

(data in PLN thousand, unless indicated otherwise)

29. Inventory

	31.12.2016 Audited	31.12.2015 Modified
Materials	27 945	27 792
Semi-finished goods and products in progress	2 467	3 934
Finished goods	158	250
Merchandise	10	10
Total, gross inventory	**30 580**	**31 986**
Inventory revaluation write-offs	**(180)**	**(703)**
Materials	27 793	27 116
Semi-finished goods and products in progress	2 467	3 934
Finished goods	130	223
Merchandise	10	10
Total, net inventory	**30 400**	**31 283**

In 2016, costs of inventory recognised in operating expenses were PLN 230,281 thousand (in 2015: PLN 152,891 thousand).

Change in write-downs to inventory:

	Financial year ended	
	31.12.2016 Audited	31.12.2015 Modified
As at start of period	**703**	**2 204**
Increases	**1 055**	**1 623**
Establishment	1 055	1 623
Decreases	**(1 578)**	**(3 124)**
Dissolution	(1 578)	(3 124)
As at end of period	**180**	**703**

Creation and reversal of amounts of impairment write-downs of inventory were recognised in the "own cost of sale" in the income statement. Write-downs of inventory are performed in line with the rules defined in Note 8.8. The Company reversed a write down of PLN 1,578 thousand, as the materials were used in the contracts performed.

No collateral has been established on inventory.

30. Trade receivables and other receivables

Structure of trade receivables and other receivables:

(data in PLN thousand, unless indicated otherwise)

	31.12.2016 Audited	31.12.2015 Modified
Gross trade receivables, before discounting	293 016	105 449
Discounting of receivables	-	-
Total, gross trade receivables	**293 016**	**105 449**
including:		
- receivables from related entities	3 106	3 304
Budgeted receivables	6	3 634
Receivables claimed in court	2 948	2 187
Other receivables from third parties	4 578	4 500
Amounts held	3 015	4 831
including:		
- receivables from related entities	18	18
Total, gross trade and other receivables	**303 563**	**120 601**
Receivables revaluation write-offs	(22 261)	(19 020)
Total	**281 302**	**101 581**

Receivables from the related companies are shown in Note 53.

Trade receivables and retained amounts:

	31.12.2016 Audited	31.12.2015 Modified
Net trade receivables	276 882	93 518
With maturity within 12 months	274 604	90 851
With maturity over 12 months	2 278	2 722
Discounting of receivables	-	-
Total, net trade receivables after discounting	**276 882**	**93 573**

Receivables due over 12 months include primarily the retained amounts which constitute an additional contract security.

The Company resigned from recognising discounting of long-term receivables due to its small significance.

The structure of due dates of retained amounts in total was included in the table below:

	31.12.2016 Audited	31.12.2015 Modified
Up to 12 months	740	2 130
Over 12 months	2 257	2 701
Total	**2 997**	**4 831**

Trade receivables are not interest bearing and their maturity is usually 30 days.

The Company has implemented special policy within the scope of making the sales only to verified customers. In the management opinion, thanks to this, there is no additional credit risk over the level specified by the write down concerning bad debt, proper for the trade receivables of the Company. At the balance sheet date 59% of the total receivables of Trakcja PRKiI are receivables from PKP PLK S.A. (December 31, 2015: 65%).

Due to the short-term nature of trade receivables, their balance sheet value is close to the fair value.

The Company concluded a factoring agreement with recourse on May 10, 2013. On April 6, 2016, an annex was signed to the substantial factoring agreement, pursuant to which the financing limit foreseen in the agreement was amended and now amounts to PLN 50,000 thousand. As at December 31, 2016, the Company did not use it (December 31, 2015: PLN 148 thousand).

(data in PLN thousand, unless indicated otherwise)

Change of write downs to receivables:

	31.12.2016 Audited	31.12.2015 Modified
As at start of period	**19 020**	**13 502**
Increases	**3 941**	**6 973**
Establishment	3 941	6 973
Decreases	**(700)**	**(1 455)**
Use	(122)	(122)
Dissolution	(578)	(1 333)
As at end of period	**22 261**	**19 020**

Trade receivables and retained amounts by due dates:

	31.12.2016 Audited	31.12.2015 Modified
Up to 1 month	160 430	69 334
From 1 month to 3 months	103 546	4 682
From 3 months to 6 months	-	-
From 6 months to 1 year	-	38
More than 1 year	2 279	2 722
Overdue receivables	10 627	16 797
Total, net trade receivables and amounts held	**276 882**	**93 573**

Structure of overdue trade receivables:

	31.12.2016 Audited	31.12.2015 Modified
Up to 1 month	4 295	9 294
From 1 month to 3 months	872	3 525
From 3 months to 6 months	2 992	2 046
From 6 months to 1 year	696	7 587
More than 1 year	10 590	11 053
Total, gross overdue trade receivables	**19 445**	**33 504**
Receivables revaluation write-offs	(8 816)	(16 707)
Total, net overdue trade receivables	**10 629**	**16 797**

Currency structure of trade and other receivables:

	31.12.2016 Audited	31.12.2015 Modified
In PLN	303 366	120 578
In foreign currencies - after conversion into PLN, including:	197	23
in BGN	9	-
in EUR	188	23
Total	**303 563**	**120 601**

Receivables claimed in court:

	31.12.2016 Audited	31.12.2015 Modified
Receivables claimed in court	2 948	2 187
Revaluation write-offs on receivables claimed in court	(2 948)	(2 187)
Total	-	-

(data in PLN thousand, unless indicated otherwise)

31. Cash and cash equivalents

Cash in bank is interest bearing according to variable interest rates which amount depends on the interest rate of one day bank investments.

Short term investments are made for different periods, from one day to one month, depending on the current demand of the Company for cash and bear interest according to negotiated interest rates.

Moreover, pursuant to the agreements signed, as at December 31, 2016, the Company had unused credit limits in the current account and revolving credits in the total amount of PLN 90 million (as at December 31, 2015: PLN 114 million).

Currency structure of cash and cash equivalents:

	31.12.2016 Audited	31.12.2015 Modified
In PLN	18 790	135 109
In foreign currencies - after conversion into PLN, including:	30	916
in EUR	23	912
in USD	4	4
in DKK	1	1
in BGN	2	-
Total	**18 820**	**136 025**

The balance of cash and cash equivalents presented in the balance sheet and in the statement of cash flows consisted of the following items:

	31.12.2016 Audited	31.12.2015 Modified
Cash in hand	42	52
Cash at bank	1 602	1 495
Other cash - deposits	17 176	133 550
Other cash - escrow account	-	928
Total	**18 820**	**136 025**
Cash adjustment at the end of period - Deposits	-	-
Cash and cash equivalents as at end of period	**18 820**	**136 025**

Cash at bank – rating

	31.12.2016 Audited	31.12.2015 Modified
Bank rated A	74	-
Bank rated A-	915	1 299
Bank rated A+	44	-
Bank rated BBB	17 221	132 867
Bank rated BBB+	1	-
Bank rated BB+	-	1 123
Bank rated BB	461	-
Bank unrated rating	-	234
Total	**18 716**	**135 523**
Cash in hand	42	52
The bal ance of the Soci al Fund (Note 59)	62	450
Cash and cash equivalents as at end of period	**18 820**	**136 025**

Rating was assigned by renowned rating agencies (Fitch, S&P).

(data in PLN thousand, unless indicated otherwise)

32. Assets held for sale

On December 18, 2015, Trakcja PRKiI and its subsidiary concluded a preliminary agreement for sale of a land plot located at ul. Oliwska 11 in Warsaw. The land plot was reallocated from tangible fixed assets to assets held for sale. On March 2, 2017, Trakcja PRKiI prolonged the sale date by a notarial deed until December 29, 2017.

33. Construction contracts

	31.12.2016 Audited	31.12.2015 Modified
Surplus of invoiced revenues over revenues resulting from degree of advancement	13 272	49 363
Surplus of revenues resulting from degree of advancement over invoiced revenues	13 360	7 745
Advances paid towards contracts being performed	219	770
Advances received towards contracts being performed	3 690	89
Provision for anticipated losses on contracts	472	363
Recognised in balance sheet:		
in current assets		
Construction contracts	**13 579**	**8 515**
in short-term liabilities		
Construction contracts	**17 434**	**49 815**

34. Capital risk management

The goal of the Company in managing the capital risk is maintaining the Company ability to continue the business and maintain optimum capital structure to provide return on investment to the shareholders. To maintain or correct the capital structure, the Company may emit new shares, change the amount of dividends paid to the shareholder, increase debt or reduce debt by selling the assets. The Company monitors the capital structure using the financing structure indexes. Indexes analysed by the Company, presented in the below table, allow maintaining both good credit rating and confirm the capital structure support for the operational business of the Company.

FINANCING STRUCTURE RATIOS	31.12.2016 Audited	31.12.2015 Modified	Change
Equity to assets ratio	0,62	0,67	-0,05
Equity to non-current assets ratio	0,95	0,99	-0,04
Debt ratio	0,38	0,33	0,05
Debt to equity ratio	0,62	0,50	0,12

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

(data in PLN thousand, unless indicated otherwise)

35. Equity

Share capital

As at December 31, 2016, the Company's 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 entitles to one vote at the Issuer's General Meeting. All shares are paid up in full.

	31.12.2016 Audited	31.12.2015 Modified
	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

As at December 31, 2016, the total share premium amounted to PLN 309,984 thousand and had not changed in comparison to the value as at December 31, 2015.

Other reserve capital

Other reserve capital includes:

- Results from previous years - capital established from profits generated in previous financial years. The Company is obliged to create reserve capital build on at least 8% of the profit in the given financial year, until the capital reaches at least one third of the initial share capital. Such supplementary capital is not subject to any distribution.

- Actuarial profit (loss) – the Company recognised actuarial profit and loss due to reserves for employee benefits in other total income and accumulates it in reserve capital. This capital is not subject to division.

Revaluation reserve

Revaluation reserve includes the results of the change of the allocation of fixed assets.

Retained earnings

The undivided financial result of the Company covers the current result for a given financial year.

Foreign exchange differences from conversion of foreign units

As the Company's branch in Bulgaria was established in 2016 and its functional currency is the Bulgarian Lev (BGN), the Company converts the data into the presentation currency which is PLN. F/x differences generated in such due to such conversion are recognized directly in a separate item within the equity. F/x differences calculated as at the end of 2016 were negative and amounted to PLN 9 thousand.

(data in PLN thousand, unless indicated otherwise)

Other total income by individual equity items

	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**

	Revaluation reserve	Other capital reserves	Foreign exchange differences on translation of foreign operations	Total
As at 31.12.2015				
Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:	**-**	**(161)**	**-**	**(161)**
Actuarial gains/(losses)	-	(161)	-	(161)
Other comprehensive net income	**-**	**(161)**	**-**	**(161)**

(data in PLN thousand, unless indicated otherwise)

36. 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 1.01.2016	**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**
As at 1.01.2015	**1 000**	**4 475**	**5 302**	**-**	**58**	**-**	**51**	**61**	**10 947**
Recognised in profit and loss account:						**-**			
- provision creation	-	4 195	3 647	5 104	208	-	2 392	-	**15 545**
- movements	-	-	-		-	-	-	-	**-**
- release of unused provisions	-	(2 502)	(1 998)	(508)	-	-	-	-	**(5 008)**
- use of provisions	-	(465)	(5 749)	(3 067)	(167)	-	(1 155)	(3)	**(10 607)**
Total	**-**	**1 228**	**(4 100)**	**1 529**	**41**	**-**	**1 237**	**(3)**	**(68)**
As at 31.12.2015 Modified	**1 000**	**5 703**	**1 202**	**1 529**	**99**	**-**	**1 288**	**58**	**10 879**

(data in PLN thousand, unless indicated otherwise)

Ageing structure of provisions:

	31.12.2016 Audited	31.12.2015 Modified
Long-term	17 577	4 690
Short-term	19 722	6 189
Total	**37 299**	**10 879**

37. Interest-bearing credits and loans

Interest-bearing long-term credits and loans

	31.12.2016 Audited	31.12.2015 Modified
Bank loans	16 974	-
- investment loans	16 974	-
Loans from other entities	8 761	13 256
- project purpose loans	8 761	13 256
Financial lease liabilities	29 024	20 084
Total	**54 759**	**33 340**

Interest-bearing short-term credits and loans

	31.12.2016 Audited	31.12.2015 Modified
Bank loans	4 529	-
- working loans	4 529	-
Loans from other entities	4 495	4 304
- project purpose loans	4 495	4 304
Financial lease liabilities	7 224	5 347
Total	**16 249**	**9 651**
Total short and long term loan and credits	**71 008**	**42 991**

Liabilities from loans and credits as at 31 December 2016 are presented in the table below.

Lender	Type of loan/credit	Amount in agreement 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	21 503
mBank S.A.	working capital loans	50 000	PLN	28.04.2017	WIBOR 1M + margin	-
mBank S.A.	overdraft	20 000	PLN	28.04.2017	WIBOR O/N + margin	-
Pekao S.A.	working capital loans	20 000	PLN	31.05.2017	WIBOR 1M + margin	-
mLeasing Sp. z o.o.	project purpose loans	22 400	PLN	16-09-2019	WIBOR 1M + margin	13 256
					TOTAL	**34 759**

(data in PLN thousand, unless indicated otherwise)

Currency structure of credits and loans of the Company:

	31.12.2016 Audited	31.12.2015 Modified
In PLN	71 008	42 991
Total	**71 008**	**42 991**

The interest rate depends on WIBOR and bank margin.

As at December 31, 2016, the Company had at its disposal a credit limit in the current account and revolving credits in the total amount of PLN 90 million (as at December 31, 2015: PLN 114 million). In addition, the Company has a factoring limit granted in the amount of PLN 50,000 thousand.

The fair value of credits and loans is not different from their book value.

38. Other financial liabilities

The Company discloses factoring liabilities in other financial liabilities. As at December 31, 2016, they were PLN 0 (December 31, 2015: PLN 148 thousand). The Company concluded a factoring agreement with recourse on May 10, 2013. The current financing limit established based on the annex to the agreement, which was signed by both parties on April 6, 2016, amounts to PLN 50,000 thousand. Factoring interest shall be charged based on the variable WIBOR O/N rate, plus a fixed margin of the Factor.

(data in PLN thousand, unless indicated otherwise)

39. Employee benefit liabilities

Liabilities due to reserves for retirement and severance benefit and jubilee awards:

Audited	**Provision for pension benefits**	**Provision for jubilee awards**
As at 01.01.2016	**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**

Audited	**Provision for pension benefits**	**Provision for jubilee awards**
As at 01.01.2015	**4 714**	**7 491**
Total costs recognised in profit and loss account:		
- Interest costs	98	155
- Current service costs	915	1 853
- Past service costs	-	-
Actuarial losses (profit) recognised in other comprehensive income	199	-
Actuarial losses (profit) recognised in profit and loss statement	-	(627)
Benefits paid	(1 828)	(1 926)
Total	**(616)**	**(545)**
As at 31.12.2015 Modified	**4 098**	**6 946**

Liabilities due to reserves for unused annual leave:

Provisions for unused leaves	31.12.2016 Audited	31.12.2015 Modified
Balance at the beginning of the period	**5 047**	**4 589**
Recognised in income statement:		
- provision creation	1 982	1 835
- release of unused provision	-	-
- use of provision	(1 134)	(1 377)
Total	**848**	**458**
Balance at the end of the period	**5 895**	**5 047**

(data in PLN thousand, unless indicated otherwise)

Maturities of employee benefits:

	Provisions for retirement and pensions	**Provision for jubilee awards**
Within 1 year	295	1 010
From 1 year to 4 years	1 348	3 012
Over 4 years	1 669	2 371
Total	**3 312**	**6 392**

An average weighted maturity of employee benefits after the employment term is 4 years.

Ageing structure of liabilities due to employee benefits:

	31.12.2016 Audited	31.12.2015 Modified
Long-term	8 400	9 369
Short-term	7 200	6 722
Total	**15 600**	**16 091**

Principles of creating provision for employee benefits:

The Company pays the retiring employees amounts of severance payments in the amount specified by the Remuneration Regulations. In relation to this, the Company based on the assessment performed on the grounds of actuarial method, creates a reserve for current amount of liabilities by virtue of severance payments and jubilee prizes.

As at December 31, 2015 and December 31, 2016, reserves for severance benefits and jubilee awards were calculated at the discount rate of 2.25% and the pay increase of 1.8%. The table below presents the sensitivity of analysis of liabilities due to employee benefits:

Factor applied	**Reasonably possible change of the factor**	**Liabilities due to employee benefits**	
		increase	**decrease**
Discount rate	+/- 1%	(408)	446
Salary growth	+/- 1%	444	(414)

The current value of liabilities due to future employee benefits is equal to their balance sheet value.

(data in PLN thousand, unless indicated otherwise)

40. Trade liabilities and other liabilities

	31.12.2016 Audited	31.12.2015 Modified
Trade liabilities, before discounting	217 173	152 424
Discounting of liabilities	-	-
Total, net trade liabilities after discounting	**217 173**	**152 424**
including:		
- liabilities from related entities	4 966	2 616
Amounts held	11 379	10 872
Budgetary liabilities	13 186	4 665
Payroll liabilities	2 345	1 948
Other liabilities towards third parties	970	2 235
Other liabilities towards subsidiaries	-	10 254
Total trade and other liabilities	**245 053**	**182 398**

Other liabilities towards related parties pertain to the transaction described in Note 24 hereto.

Liabilities from the related companies are shown in Note 53.

Maturities of trade liabilities and retained amounts:

	31.12.2016 Audited	31.12.2015 Modified
Trade liabilities before discounting	228 552	163 296
With maturity within 12 months	226 688	161 507
With maturity over 12 months	1 864	1 789
Discounting of liabilities	-	-
Total, Trade liabilities after discounting	**228 552**	**163 296**

Liabilities with more than 12 months' maturity constitute retained amounts.

In 2016 and 2015, the Company abandoned the presentation of long-term liabilities discount due to its minor importance.

Due to the short-term nature of trade liabilities, their balance sheet value is close to the fair value.

Currency structure of trade liabilities and other liabilities

	31.12.2016 Audited	31.12.2015 Modified
In PLN	244 166	181 171
In foreign currencies - after conversion into PLN, including:	888	1 227
in EUR	888	1 125
Total	**245 053**	**182 398**

Principles and conditions of liabilities payment:

Liabilities by virtue of supplies and services are not interest bearing and usually are settled from 30 to 60 days. Liabilities more than 12 months are mainly withheld amounts related to execution of the construction and installation contracts in order to correctly and on time execute the contract. The remaining liabilities are not interest bearing, with an average one month maturity term. The amount resulting from the difference between the liabilities and receivables by virtue of goods and services tax is paid to proper tax bodies within the periods resulting from tax regulations. Liabilities by virtue of interests are usually settled based on accepted interest notes.

(data in PLN thousand, unless indicated otherwise)

41. Liabilities from operating lease – the Company as the lessee

As at December 31, 2016, the Company recognises the right of perpetual usufruct of land acquired free of charge, in the amount of PLN 1,567 thousand, as operating lease. In the comparable period and parts of the reporting period, the Company was also a party to operating lease agreements for machines, equipment, vehicles and other fixed assets. All of those agreements have expired in the reporting period.

As at December 31, 2016, lease fees for operating lease recognised in the income statement were PLN 288 thousand (December 31, 2015: PLN 409 thousand).

Total amounts of future minimum lease fees are as follows:

	31.12.2016 Audited	31.12.2015 Modified
Within 1 year	91	91
Within 1 to 5 years	363	363
Over 5 years	6 177	6 268
Total	**6 631**	**6 722**

Future fees for perpetual usufruct of land:

	31.12.2016 Audited	31.12.2015 Modified
Within 1 year	830	830
Within 1 to 5 years	3 319	3 319
Over 5 years	56 436	57 270
Total	**60 585**	**61 419**

Liabilities due to perpetual usufruct of land were estimated based on annual rates of fees resulting from latest administrative decisions and the period of using the relevant land.

42. Liabilities from finance leasing agreements

The Company uses a part of the production equipment within the scope of the financial lease. The Company is able to purchase leased equipment for its nominal value at the end of the term of the agreement. The Company's liabilities pursuant to financial lease agreements are secured with rights of lessors concerning components of assets covered by the agreement.

The future minimum lease fee by virtue of these agreements and the minimum current value of lease fees net is as follows:

(data in PLN thousand, unless indicated otherwise)

	31.12.2016 Audited	31.12.2015 Modified
Nominal value of minimum leasing fees		
Within 1 year	8 633	6 628
Within 1 to 5 years	27 006	21 202
Over 5 years	4 329	903
Total financial lease liabilities - total minimum leasing fees	**39 968**	**28 733**
Financial costs on account of financial lease	**(3 720)**	**(3 302)**
Present value of minimum leasing fees		
Within 1 year	7 224	5 347
Within 1 to 5 years	24 821	19 201
Over 5 years	4 203	883
Total present value of minimum leasing fees	**36 248**	**25 431**

Ageing structure of finance lease liabilities:

	31.12.2016 Audited	31.12.2015 Modified
Long-term	29 024	20 084
Short-term	7 224	5 347
Total	**36 248**	**25 431**

43. Receivables due to operating lease – Company as the lessor

The Company is a party to lease contracts, where it acts as the lessor. Those contracts pertain to the lease of premises in the investment property owned by the Company. The lessee is not able to purchase components of assets covered by the lease after the expiry of the contract.

Total future minimum inflows due to operational lease as at December 31, 2016 and as at December 31, 2015 are as follows:

	31.12.2016 Audited	31.12.2015 Modified
Within 1 year	183	187
Within 1 to 5 years	-	-
Over 5 years	-	-
Total	**183**	**187**

44. Information about the financial instruments

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

- granted loans and own receivables – cash and short-term deposits, trade receivables, and other receivables apart from budget receivables, short-term loans granted, bank guarantees representing security of a guarantee granted to the Company by banks;
- financial liabilities measured at amortized cost – bank credits, lease and factoring liabilities, trade liabilities, and other liabilities apart from budget liabilities;

(data in PLN thousand, unless indicated otherwise)

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 current assets	-	
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	**-**	**248 115**
Total	**310 691**	**302 875**

As at 31.12.2015	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	4 671	-
Total	**4 671**	**-**
recognised as long-term liabilities	-	
Trade and other receivables	101 581	-
Other financial assets	11 828	-
Cash and cash equivalents	136 025	-
Total	**249 434**	**-**
recognised as long-term liabilities		
Interest-bearing loans and borrowings	-	33 340
Total	**-**	**33 340**
recognised as short-term liabilities		
Interest-bearing loans and borrowings	-	9 651
Trade and other liabilities	-	177 733
Other financial liabilities	-	148
Bonds	-	-
Total	**-**	**187 532**
Total	**254 105**	**220 872**

(data in PLN thousand, unless indicated otherwise)

45. Fair value of financial instruments

Comparison of the fair value and book value:

	As at 31.12.2016		As at 31.12.2015	
Classes of financial instruments	**Book value**	**Fair value**	**Book value**	**Fair value**
Loans granted	3 215	3 215	2 820	2 820
Bank guarantees deposits	7 355	7 355	13 679	13 679
Trade and other receivables (excluding budgetary receivables)	281 296	281 296	97 947	97 947
Cash and cash equivalents	18 820	18 820	136 025	136 025
Interest-bearing loans and borrowings, financial lease liabilities	71 008	71 008	42 991	42 991
Financial factoring liabilities	-	-	148	148
Trade and other liabilities (excluding budgetary liabilities)	231 868	231 868	177 733	177 733

Methods and assumptions - in case of using the valuation technique - adopted during determination of fair values of individual categories of financial instruments.

Due to the short-term nature of trade receivables and other receivables, trade liabilities and other liabilities, as well as cash and cash equivalents, the balance sheet value of these financial instruments is close to their fair value.

Granted loans and incurred credits and loans are based on variable market rates pursuant to WIBOR, hence their fair value is close to the balance sheet value.

The Company applies the following hierarchy of establishing and disclosing the fair value of financial instruments measured at fair value, depending on the selected valuation method:

Level 1 – prices of market quotations from active markets for identical assets and liabilities;

Level 2 – prices from active market, but other than market prices quotations – established directly (by comparing with actual transactions) or indirectly (using techniques based on actual transactions);

Level 3 – prices not from active markets.

Both during the reporting period and during the comparable period, there were no shifts between level 1 and 2 of the hierarchy of fair value, nor were any of the instruments moved from the level 2 to 3 of the fair value hierarchy.

46. Purpose and rules of financial risk management

When carrying out its business activities, Trakcja PRKiI is exposed to various financial risks. The Company's risk management activities focus on mitigating an impact of adverse factors on its financial performance.

Currency risk

The Company's operations are not considerably exposed to the currency risk. As at December 31, 2016, the Company's cash was EUR 188 thousand and BGN 9 thousand (December 31, 2015: EUR 214 thousand) and liabilities were EUR 888 thousand (December 31, 2015: EUR 264 thousand and DKK 178 thousand).

Risk related to growth of the overdue receivables portfolio

At the day of preparing this annual financial statement, the Company controls the level of overdue receivables. The following situation cannot be excluded, in which contracting parties in the future shall not be able to pay on time their outstandings, which fact can significantly and negatively influence the financial standing of the Company.

(data in PLN thousand, unless indicated otherwise)

Risk related to liquidity

Alike most of the companies operating in the construction industry, the Company shows seasonality of sale, which can be characterized by generating major part of incomes in the second half of the calendar year and significantly lower level of incomes within the first quarter, which fact influences the liquidity management and demand for working capital of the Company. The Company liquidity is influenced also by the circumstance that its major receivers obtain financial resources for purchase of services provided by the Company from the Government of Poland and European Union donations. Legal regulations representing the grounds for such donations do not allow their transfer to financing VAT tax. It cannot be excluded, that receivables by virtue of due VAT can be regulated by the receivers in aid of the Company with delay, which fact shall not release the Company from the obligation to pay the tax within time frame stipulated in the Law.

Irregularity of inflows from recipients may adversely affect the Company's liquidity. On the other hand, Trakcja PRKiI while executing the construction contracts, obtains advance money for performing the works in amounts from 10% to 20%, what improves the financial liquidity of the Company and enables financing the initial costs of construction regardless of the invoicing for the performed services. Unexpected variations within the scope of liquidity and unexpected growth of demand for working capital may significantly and negatively influence the financial standing of the Company.

To minimize the risk relating to loss of liquidity, the Company takes advantage of external sources of financing in the form of credits (revolving credits, overdrafts, and investment credits), bonds and factoring. The balance of liabilities due to credits and loans as at December 31, 2016 along with their maturity dates are presented in Note 37. Additionally, the Company invests the excess of cash on interest-bearing current accounts, term deposits, money market deposits, selecting instruments with appropriate maturity or sufficient liquidity to ensure sufficient buffer.

The table below presents the analysis of the Company's financial liabilities in net amounts, according to maturity dates, respectively for the maturity term remaining as at the balance sheet date to the contractual maturity date. Amounts disclosed in the table comprise contractual undiscounted cash flows.

As at 31.12.2016 Audited	**To 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**In the period from 1 to 5 years**	**Over 5 years**
Interest-bearing loans and borrowings	481	1 376	6 419	29 428	-
Financial lease liabilities	731	1 477	6 617	26 815	4 429
Financial factoring liabilities	-	-	-	-	-
Trade and other liabilities	186 726	37 788	2 174	1 528	336

As at 31.12.2015 Modified	**To 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**In the period from 1 to 5 years**	**Over 5 years**
Interest-bearing loans and borrowings	415	830	3 735	14 110	-
Financial lease liabilities	1 139	1 094	4 395	21 203	902
Financial factoring liabilities	148	-	-	-	-
Trade and other liabilities	126 696	29 278	4 791	2 328	201

Interest rate risk

As at December 31, 2016 and December 31, 2015, there is a risk relating to changes in interest rates with regard to the interest rate on credits and loans incurred by the Company, as well as the liabilities from factoring and financial lease. Detailed information about the credits and loans incurred by the Company is included in Note 37.

The analysis of interest rate variability influence on the Company’s financial result as per December 31, 2016 and December 31, 2015 is presented below. To carry out the sensitivity analysis concerning interest rates changes, these were estimated as at December 31, 2016 and as at December 31, 2015 at the rationally foreseen level, i.e. -1/1 percentage point.

(data in PLN thousand, unless indicated otherwise)

	Value at the balance-sheet date	Sensitivity to changes as at December 31, 2016	
		+ 100 bp	- 100 bp
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 credits, 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**

	Value at the balance-sheet	Sensitivity to changes as at December 31, 2015	
		+ 100 bp	- 100 bp
Trade receivables (present value)	105 449		
Trade payables (present value)	152 424		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	149 704	1 497	(1 497)
Loans and credits, factoring liability, bonds (nominal value/interest)	43 140	(431)	431
Gross impact on period result and net assets		**1 066**	**(1 066)**
Deferred tax		202	(202)
Total		**863**	**(863)**

Credit risk

The Company's credit risk is related mainly to trade receivables. Trakcja PRKiI applies the policy of concluding contracts with contracting parties of high credibility and verified credit capacity. The evaluation of the credit capacity is performed on regular basis. In case of negative evaluation of the future credit capacity of the contracting party, the Company applies adequate financial or property securities in order to minimize the credit risk. Financial services monitor on current basis the receivables status limiting the bad debt risk. The balance sheet value of financial assets posted in the financial statement corresponds to the maximum exposure of the Company to credit risk (without consideration of securities). Because at the balance sheet date 53% of the total receivables of the Company were the receivables of PKP PLK S.A. there is not significant concentration of the credit risk.

Disclosures concerning overdue trade receivables and created write-downs to receivables are presented in Note 30.

Credits granted are mainly a credit granted to the Company's subsidiary. This credit risk is mitigated by the fact that the Company exerts control over the operations of the subsidiary.

The Company cooperates with financial institutes of high credibility. Free cash is deposited in a few banks in order to avoid concentration of risk related to liquid resources.

Maximum exposure to credit risk is equal to the balance-sheet value of the following financial instrument:

(data in PLN thousand, unless indicated otherwise)

	Book value	
The maximum exposure to credit risk	31.12.2016	31.12.2015
Loans to:	3 215	2 820
- unrelated parties	-	-
- subsidiaries	3 215	2 820
Trade receivables and other gross beyond budget:	303 558	116 967
- from unrelated parties	300 452	113 645
- from subsidiaries	3 106	3 322
Cash and cash equivalents	18 820	136 025
Bank guarantees deposits	7 355	13 679
Total	**332 948**	**269 491**

Purpose and rules of financial risk management

The Company manages financial risk by way of identifying, monitoring and reporting on risk factors, which aims at limiting the unfavourable currency risk factors on cash flows and the Company's economic result. Derivative instruments in the Company are measured at fair value. For registration purposes, the Company applies bank valuations.

47. Balance sheet items measured at fair value

The table below presents all balance sheet items measured at fair value indicating the allocated level in the fair value hierarchy.

	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

	31.12.2015 Modified	Level 1	Level 2	Level 3
Investment property:	**17 602**	-	-	17 602
Office property	17 602			17 602
- land	13 532			13 532
- buildings	4 070			4 070

Assumptions adopted in determining fair values:

- of investment properties were presented in Note 22 of the Additional Information and Explanations.

(data in PLN thousand, unless indicated otherwise)

48. Conditional receivables and liabilities

Conditional receivables and liabilities are presented in the below table:

	31.12.2016 Audited	31.12.2015 Modified
Contingent receivables		
From related entities due to:	**70 075**	**94 664**
Received guarantees and sureties	65 240	89 162
Bills of exchange received as collateral	4 835	5 502
Total contingent receivables	**70 075**	**94 664**
Contingent liabilities		
From related entities due to:	**-**	**809**
Provided guarantees and sureties	-	809
From other entities due to:	**2 002 238**	**2 269 160**
Provided guarantees and sureties	509 877	394 038
Promissory notes	547 720	439 152
Mortgages	99 000	99 000
Assignment of receivables	722 767	1 238 501
Assignment of rights under insurance policy	41 559	41 586
Security deposits	12 133	20 140
Other liabilities	69 183	36 743
Total contingent liabilities	**2 002 239**	**2 269 969**

Contingent liabilities on account of provided guarantees and sureties include above all guarantees granted by the banks for the contracting parties of the Company as collateral of their claims tin relation to the Company due to realized building contracts (guarantee of good performance, removal of defects and damages, and reimbursement of advance payment). The banks are entitled to back claims against the companies of the Group. Promissory notes constitute another form of collateral of bank guarantees, as stipulated above. After the balance sheet date and before the publication of these statements, the Company concluded new agreements for tender bonds, guarantees of good performance and guarantees of reimbursement of advance payment in the total amount of PLN 133,778 thousand.

Except for the aforementioned contingent receivables and liabilities, as at December 31, 2016, the Company had contingent receivables in the amount of PLN 1,503 thousand (December 31, 2015: PLN 1,310 thousand) arising from the employment contract signed with employees. In case of the manager's breach of his obligations defined in Article 1 of the Non-Competition Agreement, this manager will pay, immediately and without a termination notice or any demand from the Company, liquidated damages in favour of the Company in an amount in PLN equivalent to EUR 25,000 for each instance of infringement and an amount in PLN equivalent to EUR 1000 for each day in which such an infringement takes place or is continued.
Contingent liabilities arising from employment contracts with employees were PLN 5,821 thousand as at December 31, 2016 (December 31, 2015: PLN 6,368 thousand).

Tax settlements and other fields of the business that are subject to regulations (e.g. customs and currencies), may the subject of administrative body's control, which are entitled to impose high penalties and sanctions. Lack of reference to fixed legal regulations in Poland causes the occurrence of unclear and incoherent statements in the obligatory regulations. Frequent differences in opinions as to legal interpretation of tax regulations both inside the national bodies and between the national bodies and companies, create the fields of conflicts and uncertainty. Such events result in the tax risk in Poland being much higher than in countries with a more development tax system. Tax settlements may be the subject to control for the period of five years, starting at the end of year in which the tax was paid. As a result of the performed controls, current tax settlements of the Company may be increased by additional tax obligations. In the Company's opinion, at the end of 2016, proper provisions were recognized for a measurable tax risk.

49. Important court and disputable cases

The Company informs that the total value of the proceedings concerning the Company's claims is PLN 136,781,184.44 and the total value of the proceedings concerning the Company's liabilities is PLN 5,205,986.84.

As at December 31, 2016, the Company was a party to the proceedings, the value of which separately would be at least equivalent to 10% of the equity of Trakcja PRKiI S.A.:

The case concerning summons to a conciliatory settlement regarding reimbursement of fixed costs incurred in two extension periods for the performance of the contract filed against PKP PLK S.A. by the Consortium that comprises Trakcja PRKiI S.A. and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie sp. z o. o.

On December 2, 2016, the Company and Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie sp. z o. o. applied for summons to a conciliatory settlement against PKP PLK S.A. for payment of PLN 65,848,167.00 in relation to the extension of the completion term of the contract named: “Design and performance of construction works on the railway line Krakow - Medyka - state border on the section Podłęże - Bochnia, km 16.000 - 39.000 of the Project "Modernization of the railway line E 30/C-E30, section Krakow - Rzeszow, phase 3”. The Company’s claims are estimated to be approx. PLN 25 million. The case is at the early stage of proceedings and its resolution date is difficult to predict.

Other proceedings concerning claims:

The case concerning claims against Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej in Warsaw (as of the commencement date of the proceedings, 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 a possibility of composition, Przedsiębiorstwo Robót Komunikacyjnych i Inżynieryjnych S.A. in Wrocław submitted a statement of claims of November 20, 2012 to the bankruptcy court. The statement covered claims in the total amount of PLN 55,664,100.89, including the principal amount and the interest due up to the bankruptcy announcement date, as well as the accrued contractual penalties.

According to the Company's knowledge, a list of claims towards PNI was prepared. Claims of Trakcja PRKiI S.A. were accepted in the amount of PLN 10,569,163.16, including PLN 10,274,533.87 due to unpaid invoices and PLN 294,632.29 due to interest for delay in payment. The receivables from contractual penalties and other claims in the total amount of PLN 44,956,834.35 were refused to be accepted. The Company did not agree with that refusal; therefore, an objection was submitted to the judge commissioner concerning the refusal 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 of bankruptcy procedure from arrangement bankruptcy to 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. with the possibility of an 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 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. In view of the above, as at the approval of these financial statements, the Company's claim against the Bankrupt is PLN 2,325,786.32 in consideration of the accrued contractual penalty.

(data in PLN thousand, unless indicated otherwise)

The most significant proceedings concerning liabilities:

Case initiated by Eiffage Polska Koleje Sp. z o.o. with its registered office in Warsaw

Eiffage Polska Koleje Sp. z o.o. based in Warsaw filed on 15 May 2015 a suit for payment for the amount of PLN 1,634,833.00 against Trakcja PRKiI S.A., seeking remuneration for additional expenses incurred in the extended term of the contract. The Company filed its reply to the claim and now the case is pending. Its resolution date is difficult to predict.

50. Dividends paid and declared

In 2016, Trakcja PRKiI S.A. paid dividends.

On June 16, 2016, the General Meeting of Shareholders of the Company adopted a resolution, according to which the Company's profit for 2015 in the amount of PLN 35,161,377.61 would be allocated as follows:

- the amount of PLN 17,475,846.32 (i.e. PLN 0.34 per share) to pay dividends,
- the amount of PLN 17,685,531.29 to increase the supplementary capital.

The number of shares entitled to dividends is 51,399,548.

The Annual General Meeting of Shareholders has decided that the dividend date shall be June 24, 2016 and that dividends shall be paid on July 8, 2016.

51. Assets used as collateral

Assets used as collateral at their carrying amounts:

	31.12.2016 Badane	31.12.2015 Przekształcone
Tangible non-current assets	32 519	43 780
Investment property	-	17 602
Deposits	12 133	25 530
Receivables	90 616	172 380
Stocks/shares	11 754	-
Total	**147 022**	**259 292**

52. Information about granted guarantees and warrants as well as securities on the property

On December 31, 2016, the Company had the following securities made on its assets:

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**		

Sureties

Collateral	The amount of load
Secure guarantee of proper execution of contracts	7 364
Securing proper execution of contracts	3 015
Secure payment on the lease agreements	1 298
Tender guarantee	356
Other	100
Total	**12 133**

(data in PLN thousand, unless indicated otherwise)

53. Information on related companies

Total amounts of transactions concluded with related entities in the given fiscal year are presented below.

Related entities	Financial year	Sale to related entities	Purchases from related entities	Interest revenue	Interest costs	Financial income due to dividends received
Shareholders:						
COMSA S.A.	1.01.16-31.12.16	-	1 801	-	-	-
	1.01.15-31.12.15	-	1 760	-	-	-
Subsidiaries:						
PRK7 Nieruchomości Sp. z o.o.	1.01.16-31.12.16	23	18	20	-	776
	1.01.15-31.12.15	30	62	20	-	1 300
Torprojekt Sp. z o.o.	1.01.16-31.12.16	140	2 802	-	-	615
	1.01.15-31.12.15	140	2 455	-	-	301
AB Kauno Tiltai	1.01.16-31.12.16	2 986	-	-	-	22 617
	1.01.15-31.12.15	3 033	-	-	-	14 241
PEUiM Sp. z o.o.	1.01.16-31.12.16	166	1 020	1 309	-	-
	1.01.15-31.12.15	32	6	648	-	-
Dalba Sp. z o.o.	1.01.16-31.12.16	17	-	-	-	-
	1.01.15-31.12.15	19	-	-	-	-
AB Kauno Tiltai Lenkijos skyrius	1.01.16-31.12.16	-	-	-	-	-
	1.01.15-31.12.15	-	-	-	-	-
Joint venture:						
BTW Sp. z o.o.	1.01.16-31.12.16	1 020	5 107	-	-	-
	1.01.15-31.12.15	981	5 198	-	-	-
Total	**1.01.16-31.12.16**	**4 352**	**10 748**	**1 329**	**-**	**24 007**
	1.01.15-31.12.15	**4 235**	**9 481**	**668**	**-**	**15 842**

(data in PLN thousand, unless indicated otherwise)

Information concerning receivables and liabilities from / to related companies at the end of the fiscal year is presented below.

Related entities	Reporting date	Receivables from related entities	Liabilities towards related entities	Loans granted	Borrowings received
Shareholders:					
COMSA S.A.	31.12.2016	-	831	-	-
	31.12.2015	-	1 011	-	-
Subsidiaries:					
PRK7 Nieruchomości Sp. z o.o.	31.12.2016	2	-	3 215	-
	31.12.2015	20	-	2 820	-
TORPROJEKT Sp. z o.o.	31.12.2016	23	1 579	-	-
	31.12.2015	10	1 131	-	-
AB Kauno Tiltai	31.12.2016	2 999	3	-	-
	31.12.2015	3 098	10 257	-	-
PEUiM Sp. z o.o.	31.12.2016	-	425	-	-
	31.12.2015	-	-	-	-
Dalba Sp. z o.o.	31.12.2016	-	-	-	-
	31.12.2015	-	-	-	-
AB Kauno Tiltai Lenkijos skyrius	31.12.2016	-	-	-	-
	31.12.2015	-	-	-	-
BTW Sp. z o.o.	31.12.2016	82	2 128	-	-
Joint venture:					
BTW Sp. z o.o.	31.12.2015	194	1 484	-	-
Total	31.12.2016	**3 106**	**4 966**	**3 215**	**-**
	31.12.2015	**3 322**	**13 883**	**2 820**	**-**

Transactions with related companies are made on market terms.

The Company signed the following agreement with its shareholder: COMSA S.A., relating to granting to it a licence for the entire technical know-how and a trademark, as well as providing non-material goods in the form: competences, industry knowledge, expert knowledge in terms of organization, operations, sales and technology of COMSA S.A. The contract was concluded at arm's length. Remuneration for providing the above services by COMSA S.A. in 2016 amounted to PLN 1,801 thousand.

Unpaid amounts are not secured and will be settled through the cash item. No guarantees were granted or issued. During the reporting period, no costs due to doubtful and threatened receivables due to transactions with related entities were recognized.

(data in PLN thousand, unless indicated otherwise)

Credits granted to the related companies as at 31 December 2016 are presented in the table below.

Borrower	Amount of loan (ths. PLN)	Currency	Maturity date	Interests	Amount left to be paid	Capital relationship
PRK 7 Nieruchomości Sp. z o.o.	9 500	PLN	31.03.2017	WIBOR 1 M + margin	3 215	subsidiary
TOTAL	**9 500**				**3 215**	

Credits granted to the subsidiaries are recognised in short-term part of other financial assets.

54. Information on the benefits for key personnel

Remuneration of the managers of higher level and members of the supervisory bodies of the Company in 2016:

Remuneration of the Management Board of Trakcja PRKiI:

Remuneration of the Management Board of the Parent company	Financial year ended			
	31.12.2016 Audited		31.12.2015 Modified	
	In Parent company	In subsidiaries	In Parent company	In subsidiaries
Salaries and other current employee benefits	3 942	1 802	7 462	1 746
Post-employment benefits	-	92	639	-
Other long-term benefits	-	-	-	-
Benefits due to termination of employment	-	-	4 439	-
Share-based payment	-	-	-	-
Total	**3 942**	**1 894**	**12 540**	**1 746**

The Management Board members of Trakcja PRKiI were not shareholders or members controlling, co-controlling or having important influence on the entities outside Trakcja Group:

In 2016, no significant transactions were made with management.

The details of agreements concluded with management members were described in Section 5.10 and the additional information concerning the amounts of remuneration of the Management Board and Supervisory Board members was presented in Section 5.9 of the Report of the Management Board on the Activities of Trakcja PRKiI for the financial year ended on December 31, 2016.

Remuneration of the Supervisory Board of Trakcja PRKiI:

Remuneration of the Supervisory Board of the Parent company	Financial year ended			
	31.12.2016 Audited		31.12.2015 Modified	
	In Parent company	In subsidiaries	In Parent company	In subsidiaries
Salaries and other current employee benefits	578	262	378	512
Razem	**578**	**262**	**378**	**512**

(data in PLN thousand, unless indicated otherwise)

55. Important events during the fiscal year and falling after the balance sheet date

Important events in 2016 year	CR
Significant agreements - construction contracts	
Signing by Issuer's subidiary AB Kauno tiltai from 16 December 2015 to 29 April 2016 an agreement with the Lithuanian Roads Authority of the Lithuanian Ministry of Transportation, the total net value of agreements calculated in PLN amounted to: PLN 146,595,585.42. The agreement with the largest value was the agreement executed by a consortium, which includes Kauno, with the net value calculated in PLN amounting to: PLN 105,610,072.91.	8/2016
In 24.05.2016 the Company signed with Przedsiębiorstwo Usług Technicznych INTERCOR sp. z o.o. based in Zawiercie (acting as a partner of the consortium) an amendment to the consortium agreement, which had been concluded for the purpose of seeking the award of a public contract for the "Design and construction of the S-5 expressway on the section Nowe Marzy-Bydgoszcz-Kuyavia and Pomerania border with Wielkopolskie Province. Part 4 – Design and construction of the S-5 expressway on the section from the Szubin junction (inclusive of the junction) to the Jaroszewo junction (inclusive of the junction) with the length of approx. 19.3 km" and signed with Przedsiębiorstwo Usług Technicznych INTERCOR sp. z o.o. z based in Zawiercie an amendment to the consortium agreement, which had been concluded for the purpose of seeking the award of a public contract for the Design and construction of the S-5 expressway on the section Nowe Marzy-Bydgoszcz-Kuyavia and Pomerania border with Wielkopolskie Province. Part 1 – Design and construction of the S-5 expressway on the section from the Aleksandrowo junction (inclusive of the junction) to the Tryszczyn junction (inclusive of the junction) with the length of approx. 14.7 km". Under amendments has been agreed a new percentage share in the performance and value of the contract as part of the consortium.	14/2016
In 29.12.2016 the Company signed as the Consortium Leader the agreement with PKP Polskie Linie Kolejowe S.A. on realization of construction works - Tender No. 1 - Modernization of section Jaworzno Szczakowa – Trzebinia (km 1,150 – 0,000 of line No. 134, km 15,810 – 29,110 of line No. 133) the net total value is 296,45 mPLN. The planned share of Trakcja PRKiI amounts to 146,27 mPLN (net value). The works will be realized within 24 months from the beginnig of works.	25/2016

(data in PLN thousand, unless indicated otherwise)

Significant agreements - other	
Company signed with Powszechny Zakład Ubezpieczeń S.A. an amendment to the Agreement on regular granting insurance guarantees. Pursuant to the Agreement, a renewable maximum exposure limit of PLN 150,000,000 was established for the period from 21 January 2016 to 20 January 2017. The Agreement is secured with 3 blank promissory notes issued by the Issuer, along with a promissory note declaration.	2/2016
Company concluded with Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. a Cooperation Agreement for providing insurance guarantees within the guarantee limit granted. Pursuant to the Agreement, a renewable maximum exposure limit of PLN 150,000,000 was established. The Agreement is secured with 10 blank promissory notes issued by the Issuer, along with promissory note declarations.	3/2016
Company signed with z HSBC Bank Polska S.A.an amendment to the Agreement of guarantee line up to PLN 70,000,000.00. Under the amendment, the bank guarantee availability period was extended until 30 September 2016.	4/2016
Company signed with mFaktoring S.A. announces the mutual signing an amendment to the material agreement of factoring. Under the Amendment, the limit of financing set out in the Agreement was changed, and now it amounts to PLN 50,000,000.00.	6/2016
Company signed with mBank Spółka Akcyjna an amendment to the Framework Agreement, which has increased the amount of guarantee line with guarantee limit granted to the Company by the Bank.	16/2016

Changes in the Management Board	
On September 6, 2016, the Company received a statement from Mr. Nerijus Eidukevicius on resignation from the position of Vice President of Trakcja PRKiI S.A. The resignation was filed with effect on September 8, 2016.	21/2016
On 30 December 2016, the Company received a statement from Mr. Sławomir Raczyński on resignation from the position of Vice President of Trakcja PRKiI S.A. The resignation was filed with effect from 30 December 2016.	27/2016

(data in PLN thousand, unless indicated otherwise)

Other	
Due to the performance of impairment test of goodwill assigned to the cash generating unit, which consists 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., has decided to write-off the value of that asset in Trakcja Group's consolidated result in the amount of PLN 12 302 thousand. Additionally, the Management Board of Trakcja PRKiI S.A. informs that it has been notified of the provision created by the subsidiary AB Kauno tiltai, which has an impact on the consolidated result of the Trakcja Group of 2015 amounting to PLN 27 800 thousand. The provision was created as on 31 December 2015 with regard to the litigation between the consortium, AB Kauno tiltai constitutes a part of, and the AB Lietuvos geležinkeliai, in which the AB Lietuvos geležinkeliai claim charging a contractual penalty due to a delay in performance of works.	5/2016
The Company received a notice from the shareholder, COMSA S.A. about the change of at least 2% of votes in the General Meeting. Now Comsa S.A. owns 15,843,193 shares which represents 30.82 % of the share capital of the Company and entitles COMSA to 15,843,193 votes at the general meeting of the Company, which represents 30.82 % of the total number of votes.	7/2016
Company was undertaken a resolution with regard to division of profit for 2015, recommending to the General Meeting to assign the profit of PLN 35,161,377.61 as follows: - the amount of PLN 17,475,846.32 (i.e. PLN 0.34 per share) - for dividend payment; - the amount of PLN 17,685,531.29 - for supplementary capital.	9/2016
The Supervisory Board decided to select Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k., as the entity authorized to audit the financial statements.	10/2016
The Supervisory Board passed a resolution confirming its opinion on the recommendation of the Management Board regarding the followinig division of the Company's 2015 profit in the amount of PLN 35,161,377.61.	11/2016
Convening of the Annual General Meeting of Shareholders on June 16, 2016, 9:00 in Warsaw.	12/2016
Publication of draft resolutions that were on the agenda of the Annual General Meeting on 16 June 2016.	13/2016
Obtainment a draft resolution on the distribution of profit for 2015 from a shareholder representing over one-twentieth of the share capital, namely from Nationale-Nederlanden Otwarty Fundusz Emerytalny represented by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	15/2016
The Company's Management Board made public the wording of the resolutions adopted and rejected at the Annual General Meeting of Shareholders of the Company held on 16 June 2016.	17/2016
The Company's Management Board passed the list of shareholders holding at least 5% of the total number of votes at the Annual General Meeting of Shareholders held on 16 June 2016 in Warsaw.	18/2016

(data in PLN thousand, unless indicated otherwise)

In 16.06.2016 the Annual General Meeting of Shareholders of Trakcja PRKiI S.A. has appointed the Supervisory Board members for a new joint 3-year term of office.	19/2016
In 16.06.2016 the General Meeting of Shareholders of the Company adopted a resolution: - the amount of PLN 17,475,846.32 to pay dividends, - the amount of PLN 17,685,531.29 to increase the supplementary capital.	20/2016
On 22.09.2016, the Management Board with major delay in the financial prospects for 2014-2020 as far as tenders announced on the infrastructural market, mostly railway infrastructure market, having carefully analysed all the business and social aspects, the Company's Management Board decided to optimise the Company's organisational structure in a way that as a result will lead to job losses pursuant to Article 2 para. 3 and 4 of the Act on Specific Rules for Terminating Employment Relationships with Employees for Reasons Beyond the Employees' Control of 13 March 2003.	22/2016
Company created provision for staff restructuring to be covered in the standalone and consolidated financial results for the year 2016. The total value of the provision made and the incurred costs on the result of the Trakcja PRKiI S.A. Company and the Group, estimated as PLN 3.9 million, was presented in the standalone financial statement for the third quarter of 2016 and settled until 30 June 2017.	23/2016
Change of the date of publication of the interim report for 3 Q 2016.	24/2016
In 12.29.2016 Company received pursuant to article 19.1 MAR (Market Abuse Regulation) notification from COMSA S.A. as a person closely associated with Fernando Perea Samarra and Jorge Miarnau Montserrat (Members of Supervisory Board)	26/2016

After the balance sheet date until the day of preparing this annual financial statement, i.e. March 21, 2017, no events occurred which were not and should be included in the accountancy books of the fiscal year.

Significant events after the balance sheet date	CR
Significant agreements	
In 20.01.2017 Company signed as the Consortium leader the agreement with PKP PLK S.A. on design and realization of construction works - „Works on railway lines No. 140, 148, 157, 159, 173, 689, 691 on the section Chybie – Żory – Rybnik – Nędza / Turze" within the Operational Programme Infrastructure and Environment (POIiŚ) 5.2-5 net value 373,7 mPLN. The planned share of Trakcja PRKiI amounts to 124,5 mPLN (net value). The works will be realized within 30 months from the signning date.	2/2017
Other	
In 9.01.2017 The company has made public the deadlines for the publication of periodic reports in 2017.	1/2017
In 15.03.2017 due to the performance of impairment test of goodwill assigned to the cash generating unit, which consists 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., Management Board has decided to write-off the value of that asset in Trakcja Group's consolidated balance sheet in the amount of PLN 11 799 thousand which was recognized in the consolidated results of 2016.	3/2017

After the balance sheet date, on February 9, 2017, a subsidiary named ТРАКЦІЯ УКРАЇНА ("Trakcja Ukraina" Sp. z o.o.) was established in Dnipro (Ukraine). Its majority owner is PDM Białystok S.A. On March 3, 2017, Trakcja PRKiI S.A. opened its branch in Ukraine.

(data in PLN thousand, unless indicated otherwise)

56. Financial statement under conditions of high inflation

Cumulated, average annual rate of inflation for the last 3 years for each of the periods covered by this financial information did not exceed the value of 100%, which is why there was no need to convert the financial statements by the prices change index.

57. Employment

Average employment in the Company was as follows:

	For the period 12 months ended	
	31.12.2016	31.12.2015
	Audited	Audited
Average employment in the Company during the period:		
Management Board of Parent entity	5	5
Administration	126	130
Sales department	6	5
Production division	848	827
Other employees	1	5
Total	**986**	**972**

As at the balance sheet date the employment structure in the Company was as follows:

	31.12.2016	31.12.2015
	Audited	Modified
Employment in the Company		
Management Board of Parent entity	3	5
Administration	130	123
Sales department	6	5
Production division	798	822
Other employees	-	2
Total	**937**	**957**

58. Company Social Benefit Fund assets and liabilities

The Act of March 4, 1994 on the company social benefit fund as amended, states that the Company Social Benefit Fund is created by employers with over 20 full-time employees. The Company creates such fund and performs periodical write off in the amount of the basic write off. Goal of the Fund is subsidize social operations of the Company, loans granted to its employees and the remaining social costs. The Company has compensated assets of the Fund with own liabilities against the Fund, because the assets do not represent separate assets of the Company.

The below table presents an analysis of assets, liabilities, costs and balances net of the compensated assets and liabilities of the Fund:

	31.12.2016	31.12.2015
	Audited	Modified
Loans granted to employees	661	906
Cash	715	781
Liabilities attributable to the Fund	(1 314)	(1 237)
Balance after compensation	**62**	**450**
Contributions to the fund during the financial period	**1 248**	**1 235**

(data in PLN thousand, unless indicated otherwise)

59. Remuneration of the auditor

Pursuant to the resolution of the Supervisory Board of Trakcja PRKiI, the entity authorized to audit the financial statements of the Group and the Parent Company is Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. based in Warsaw at Al. Jana Pawła II 22.

On July 19, 2016, the Parent Company concluded an agreement with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for:

- a review the semi-annual separate and consolidated financial statements prepared as at June 30, 2016 according to the International Accounting Standards;
- an audit of the annual separate and consolidated financial statement prepared as at December 31, 2016 according to the International Accounting Standards.

The agreement was concluded for the period of performing the subject of the contract.

The amount of remuneration of the certified auditor for services provided to the Company is presented in the table below:

	For the period 12 months ended	
	31.12.2016	31.12.2015
	Audited	Modified
On account of agreement for financial statement audit	144	135
On account of agreement for financial statement review	72	68
Other certified services	5	5
Total	**221**	**208**

The fee for the audit of the selected entities of the Trakcja Group is payable based on separate agreements concluded between the entity authorized to audit financial statements and each of the selected Group companies.

Warsaw, on March 21, 2017

Jarosław Tomaszewski
President of the Board

Marek Kacprzak
Vice-President of the Management Board

Paweł Nogalski
Vice-President of the Management Board

Statement prepared by:

Elżbieta Okuła
Chief Accountant

TRAKCJA PRKiI S.A.
WARSAW, ZŁOTA 59

FINANCIAL STATEMENTS
FOR THE 2016 FINANCIAL YEAR

WITH
AUDITOR'S OPINION
AND
AUDIT REPORT

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AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Trakcja PRKiI S.A.

Auditor's report

We have audited the attached financial statements of Trakcja PRKiI S.A. with its registered office in Warsaw at Złota 59 (hereinafter: the "Company"), including balance sheet prepared as at 31 December 2016, income statement and statement of comprehensive income, statement of changes in equity, cash flow statement for the financial year from 1 January 2016 to 31 December 2016 and notes comprising a summary of significant accounting policies and other explanatory information.

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

The Management Board of the Company is responsible for the preparation of the financial statements, based on properly kept accounting records, and their fair presentation in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and applicable laws. It is also obliged to ensure internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2016 item 1047 as amended), hereinafter referred to as 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit works.

We conducted our audit in accordance with Section 7 of the Accounting Act and the National Auditing Standards in line with the wording of the International Standards on Auditing adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 as amended. Those standards 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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, evaluating if accounting books based on which financial statements are prepared, are properly kept, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the attached financial statements:

- give a true and fair view of the economic and financial position of the Company as at 31 December 2016 and its financial performance for the financial year from 1 January 2016 to 31 December 2016 in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies),
- have been prepared based on properly kept accounting books,
- comply, with respect to their form and content, with the applicable provisions of law and the articles of association of the Company.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities.

It is the responsibility of the Management Board of the Company to prepare the report on the activities in accordance with the Accounting Act and other applicable laws. Moreover, the Management Board of the Company and members of the Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act.

When auditing the financial statements we were obliged to examine the report on the activities and indicate whether the information contained therein complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) 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 based on our knowledge of the Company and its business environment obtained in the course of the audit.

In our opinion, the information contained in the report on the activities complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the attached financial statements. Moreover, based on our knowledge of the Company and its business environment obtained in the course of the audit, we have not detected any material misstatements in the report on the activities.

Deloitte.

Statement of compliance with corporate governance principles

In relation to our audit of the financial statements, it was our responsibility to examine the Company's statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities. In our opinion, the Company's statement provides all information required by the secondary legislation issued under Article 60.2 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2016 item 1639 as amended) and regulations issued under Article 61 thereof. The information is compliant with the applicable laws and information presented in the financial statements.

Maciej Krasoń
Key certified auditor
conducting the audit
No. 10149

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Maciej Krasoń – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 21 March 2017

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF TRAKCJA PRKII S.A. FOR THE 2016 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited Company

The Company operates under the business name Trakcja PRKiI S.A. (hereinafter: the "Company"). The Company's registered office is located in Warsaw at Złota 59.

The Company operates as a joint stock company. The Company is recorded in the Register of Entrepreneurs kept by the District Court for Capital City of Warsaw, XII Commercial Division of National Court Register under KRS number 0000084266.

The Company operates based on the provisions of the Code of Commercial Companies.

As of 31 December 2016, the Company's share capital equaled PLN 41,120 thousand and was divided into 51,399,548 ordinary shares with a face value of PLN 0.80 each.

In the audited period, the Company conducted activities mainly in the area of constructions and specialized civil engineering.

Composition of the Management Board as of the date of the opinion:
- Jarosław Tomaszewski – Chairman of the Management Board;
- Marek Kacprzak – Vice-Chairman of the Management Board;
- Paweł Nogalski – Vice-Chairman of the Management Board.

Changes in the composition of the Management Board during the audited period and until the date of the opinion:
- on 6 September 2016 year Mr. Nerijus Eidukevicius resigned the office of Vice-Chairman of the Management Board – his mandate was revoked on 8 September 2016;
- on 30 December 2016 year Mr. Sławomir Raczyński resigned the office of Vice-Chairman of the Management Board – his mandate was revoked on the same day.

2. Information on the financial statements for the previous financial year

The activities of the Company in 2015 resulted in a net profit of PLN 35,161 thousand. The financial statements of the Company for the 2015 financial year were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the financial statements for the 2015 financial year was held on June 16, 2016 year. The General Shareholders' Meeting decided to distribute the net profit for 2015 in the following manner:
- dividend for shareholders – PLN 17,476 thousand;
- supplementary capital – PLN 17,685 thousand.

The financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 27 June 2016.

The consolidated financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 27 June 2016.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the Supervisory Board. The audit of the financial statements was performed based on the agreement of 29 July 2016 concluded between the Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, al. Jana Pawła II 22, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Maciej Krasoń, key certified auditor (No. 10149), in the registered office of the Company from 28 November to 9 December 2016, 20 February to 17 March 2017 and outside the Company's premises until the opinion date.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting the audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on certified auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2016 item 1000 as amended) to express an unbiased and independent opinion on the financial statements of the Company.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of 21 March 2017.

II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

Presented below are the main items from the income statement and statement of comprehensive income and balance sheet as well as financial ratios describing the financial performance of the Company and its economic and financial position compared to the prior year.

Main items from the income statement (PLN '000)	2016	2015
Sales revenue	826,198	763,399
Operating expenses	(814,682)	(735,258)
Operating profit (loss)	9,714	30,094
Net profit (loss)	28,699	35,161
Comprehensive income	29,449	35,000
Main items from the balance sheet (PLN '000)		
Inventory	30,400	31,283
Trade receivables	276,882	93,573
Current assets	356,980	299,500
Total assets	1,014,058	919,161*
Equity	625,311	613,327
Short-term liabilities (including short-term provisions and accruals)	307,753	258,285
Trade liabilities	228,552	163,296
Total liabilities and provisions	388,747	305,834*

Profitability and efficiency ratios	2016	2015
– return on sales	1%	4%
– net return on equity	5%	6%
– assets turnover ratio	0,81	0,83
– receivables turnover in days	81	109
– liabilities turnover in days	87	105
– inventory turnover in days	14	12
Liquidity/Net working capital		
– debt ratio	38%	33%
– equity to fixed assets ratio	62%	67%
– net working capital (PLN '000)	49,227	41,214
– current ratio	1,16	1,16
– quick ratio	1,06	1,04

** Total assets and long-term provisions have changed since last year because of balance sheet adjustment adopting net presentation of deferred tax assets and liabilities*

An analysis of the above figures and ratios indicated the following trends in 2016:

- decrease of return on sales and net return on equity;
- decrease of assets turnover ratio;
- decrease of receivables and liabilities turnover ratio in days;
- increase of inventory turnover ratio in days;
- increase of debt ratio;
- decrease of equity to fixed assets ratio;
- increase of net working capital;
- increase of quick ratio.

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company has valid documentation describing the adopted accounting principles, complying in all material respects with Article 10 of the Accounting Act. The principles have been applied consistently and did not change compared to the principles applied in the prior year. The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

Based on tests performed during the audit procedures, we have verified the adopted accounting system and found no misstatements that would affect the financial statements. Our audit did not include, though, the entire accounting system used by the Company.

The Company performed a physical count of assets, equity and liabilities within the scope necessary to confirm the existence of the presented assets, equity and liabilities.

2. Information identifying the audited financial statements

The audited financial statements were prepared as of 31 December 2016 and include:

- balance sheet prepared as of 31 December 2016, with total assets and liabilities plus equity of PLN 1,014,058 thousand;
- income statement for the period from 1 January 2016 to 31 December 2016, with a net profit of PLN 28,699 thousand;
- statement of comprehensive income for the period from 1 January 2016 to 31 December 2016 with a total comprehensive income of PLN 29,449 thousand;
- statement of changes in equity for the period from 1 January 2016 to 31 December 2016, disclosing an increase in equity of PLN 11,984 thousand;
- cash flow statement for the period from 1 January 2016 to 31 December 2016, showing a cash outflow of PLN 117,205 thousand;
- notes, comprising a summary of significant accounting policies and other explanatory information.

3. Information about selected material items of the financial statements

The structure of assets, equity and liabilities as well as items affecting the financial result have been presented in the financial statements.

<u>Property, plant and equipment</u>

Tangible fixed assets contain:
- fixed assets - PLN 122,605 thousand;
- fixed assets under construction – PLN 12,290 thousand.

The ownership structure of fixed assets is presented in the relevant explanatory note to the balance sheet.

<u>Long-term investments</u>

The Company prepares tests for impairment of investments on the balance sheet date. Tests carried out on a date December 31, 2016 showed no impairment of investments.

Inventory

The structure of inventory and related impairment losses has been correctly presented in the relevant explanatory note to the balance sheet.

Receivables

Ageing of trade receivables has been correctly presented in the respective explanatory note to the balance sheet, together with related impairment losses.

Liabilities

The nature of contracted loans, security and maturity has been presented in the notes to the financial statements.

Prepayments, accruals and provisions for liabilities

The structure of prepayments, accruals and provisions for liabilities is presented in notes.

4. Completeness and correctness of notes and explanations and the report on the activities of the Company

The Company confirmed the validity of the going concern principle in the preparation of the financial statements. The notes and explanations give a correct and complete description of measurement principles regarding assets, equity, liabilities, financial result and principles of preparation of the financial statements.

The notes to the financial statements give a correct and complete description of the reporting items and clearly present other information required under IFRS.

The financial statements have been supplemented with the Management Board's report on the activities of the Company in the 2016 financial year. The report contains information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended). We have audited the report with respect to the disclosed information derived directly from the audited financial statements.

IV. FINAL NOTES

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Company's Management Board, in which the Board stated that the Company complied with the laws in force.

Maciej Krasoń
Key certified auditor
conducting the audit
No. 10149

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Maciej Krasoń – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 21 March 2017