TRAKCJA
CAPITAL GROUP

CONSOLIDATED ANNUAL REPORT

OF TRAKCJA CAPITAL GROUP

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

published pursuant to § 60(1)(3) of the Minister of Finance's Regulation of 29 March 2018 on current and periodic information to be published 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 of 2018, item 757, with later change)

Warsaw, 21 April 2020

This document is a translation

The Polish original should be referred to in matters of interpretation

Contents of the Annual Report:

Dear Stakeholders

Please find attached the annual report of Trakcja Group and Trakcja PRKiI for 2019.

The past year marked one of the most difficult periods in the 70-year history of our company. It was full of challenges and threats, but we managed to reach the end of this period together, with a positive accent.

The launch of a financial restructuring and attracting a new, stable shareholder are the largest achievements of the past year. It also marks the beginning of a series of remedial processes initiated by me with the aim of returning to the path of stability and growth in the coming years.

2019 brought about an accumulation of negative effects and mistakes from the past. For several years now, the infrastructure project market has been struggling with countless problems that have had a strong adverse impact on the financial condition of companies in the infrastructure sector. These include the unstable supply of contracts, above-average increase in prices of materials and subcontractors, shortages on the labour market and, above all, a failure to implement the contract revaluation system.

In addition to the absence of an effective system to compensate for the unpredictable increase in costs, the situation was further exacerbated by the problem with settling contractual claims. Unclear rules, lengthy proceedings and subjective arbitrariness on the part of the public partner have additionally contributed to an increase in the risk to which Trakcja Group's business is exposed.

Inadequate consideration of the above factors and failure to adapt to them in the past had a crucial impact on the dramatic deterioration of financial liquidity of Trakcja Group, as a result of which the Company was forced to undergo deep financial restructuring.

Our company received support from the largest financial institutions in Poland – including Bank Gospodarstwa Krajowego and the Industrial Development Agency – as well as from existing banks, insurers and shareholders. The Company has acquired new financial instruments worth more than PLN 400 million, and the total value of the refinancing programme is PLN 1.2 billion. Owing to the successful restructuring, we were able to sign new contracts worth over PLN 750 million and return to active operations in all existing sectors, as well as to focus on the most prospective projects.

I am convinced that the closure of the entire financial restructuring process together with the implemented recovery programme will lead to an increase in the company's value in the near future and a gradual improvement in profitability.

on behalf of the Company

Marcin Lewandowski

President of the Management Board

TRAKCJA
CAPITAL GROUP

DIRECTORS' REPORT

ON THE OPERATIONS OF TRAKCJA CAPITAL GROUP AND TRAKCJA PRKiI S.A.

IN 2019

This Directors' Report on the operations of Trakcja Capital Group and Trakcja PRKiI S.A. was prepared pursuant to § 70(1)(4), § 70(1)(6), § 70(1)(7) and § 71(1)(4), § 71(1)(6), § 71(1)(7) of the Minister of Finance's Regulation of 29 March 2018 on current and periodic information to be published 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 of 2018, item 757, with later change).

Pursuant to the provisions of § 71(8) of the aforementioned Regulation, the aforementioned Statements have been prepared as a single document.

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The figures presented in this Directors' Report on the operations of Trakcja Capital Group and Trakcja PRKiI S.A. are presented in thousands of Polish zlotys, except for the items clearly indicated otherwise. Financial information contained in this report is derived from the consolidated and separate financial statements prepared in accordance with the International Financial Reporting Standards ("IFRSs") endorsed by the European Union, issued and effective as at 31 December 2019. We would also like to emphasise forward-looking statements (e.g. may, will, expect, consider, estimate), because they are based on certain assumptions subject to risk and uncertainty. Therefore, the Trakcja Group and Company are not responsible for such information.

1. STRUCTURE OF TRAKCJA CAPITAL GROUP

1.1. General information on the Group

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

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

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

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

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

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

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

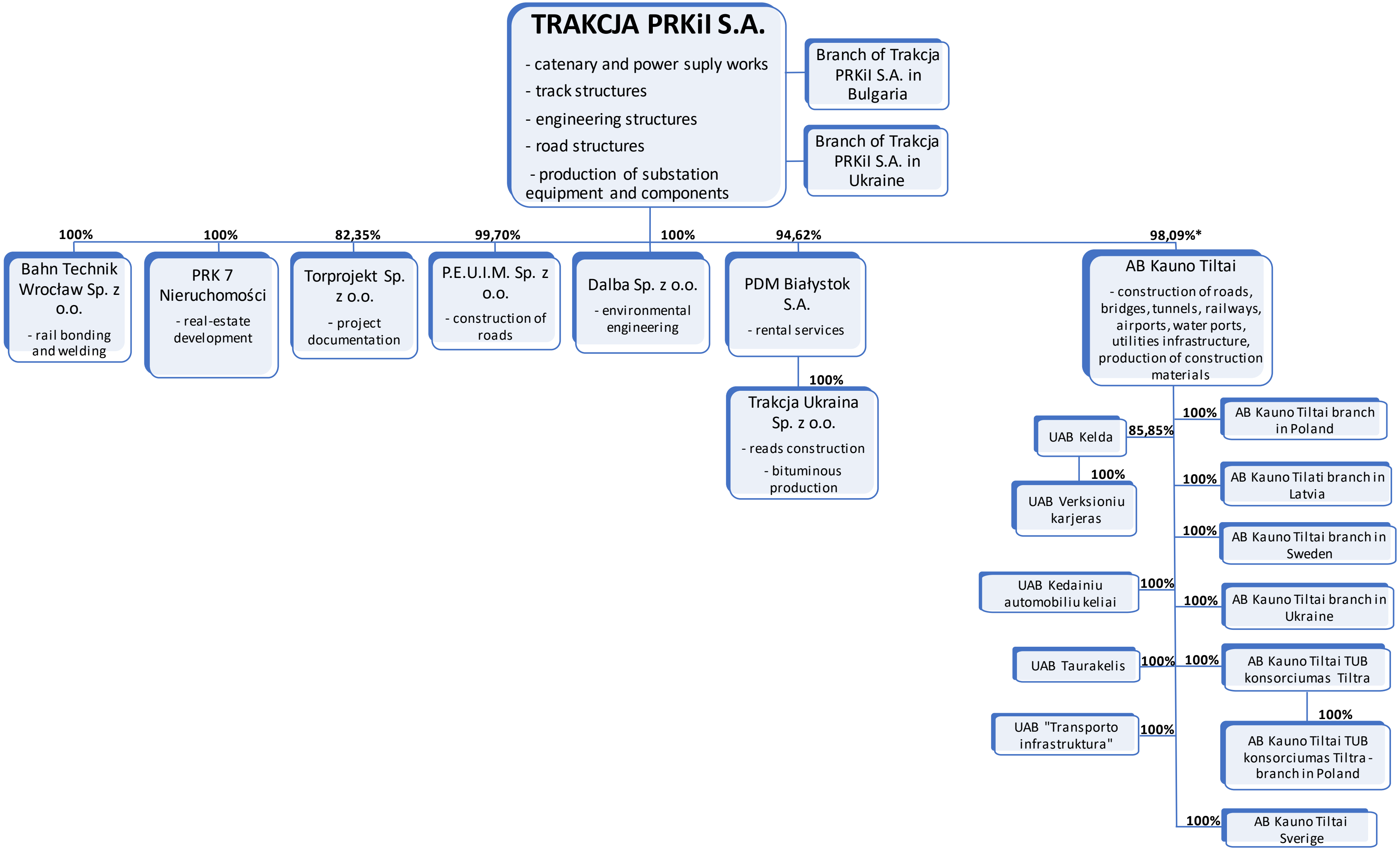
The majority of the projects implemented by the Group are financed, in particular, with funds granted by European Union and Polish government. Their implementation requires the EU procedures to be strictly complied with, which has also an effect on the quality of the services provided and products manufactured.

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

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

1.2. Structure of the Group

Trakcja PRKiI S.A. ("Trakcja PRKiI", "Company" or "Parent Company") is the parent company of Trakcja Group. The Group's composition and structure as at 31 December 2019 is presented in the diagram below.



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

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

As at 31 December 2019, the Group consists of the Parent Company (Trakcja PRKiI S.A.) and its subsidiaries.

Fully-consolidated entities:

PRK 7 Nieruchomości Sp. z o.o.

PRK 7 Nieruchomości Sp. z o.o. carries out real estate development activities and has a track record of several successful investment projects, which include, in particular, Lazurowe Osiedle residential project in Warsaw (stage I and II) and the project at ul. Oliwska in Warsaw, as well as the construction of five multi-family residential buildings in Warsaw at ul. Pełczyńskiego. For over a year, the company has been carrying out construction works – capacity construction works. The Company carries out the renovation of the library of the University of Warsaw. In 2019, she signed a new contract for the construction of a school in Ząbki.

Torprojekt Sp. z o.o.

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

Bahn Technik Wrocław Sp. z o.o.

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

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

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

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

Dalba Sp. z o.o.

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

PDM Białystok S.A.

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

Establishment of Trakcja PRKiI S.A. in Bulgaria

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

AB Kauno Tiltai Group

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

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

AB Kauno Tiltai Group is composed of the following entities:

- UAB Kelda – a subsidiary with its 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 Tauragė (Lithuania);
- UAB Kedainiu Automobiliu Keliai – a subsidiary with its registered office in Kėdainiai (Lithuania);
- TUB Konsorciumas Tiltra – a subsidiary with its registered office in Kaunas (Lithuania);
- 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 Ukraine – a branch of AB Kauno Tiltai with its registered office in Kiev (Ukraine);
- 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);
- AB Kauno Tiltai TUB konsorciumas Tiltra – branch in Poland
- UAB "Transporto infrastruktura" – a subsidiary with its registered office in Vilnius (Lithuania).

Establishment of Trakcja PRKiI S.A. in Ukraine

On March 3, 2017 Trakcja PRKiI S.A. opened an establishment in Ukraine.

Trakcja Ukraina Sp. z o.o.

PDM Białystok S.A. holds 100% of shares in Trakcja Ukraina Sp. z o.o. On October 25, 2019 PDM Białystok S.A. acquired 49.9% shares in Trakcja Ukraina Sp. z o.o., and became its sole shareholder.

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

1.4. Changes in the Group's structure in 2019 and their consequences

On 30 September 2019, a Group company, AB Kauno Tiltai, sold 100% of shares in UAB Pletros Investicjios, thus losing control over the company and its subsidiary, UAB Palangos aplinkkelis.

On 25 October 2019, a Group company, Trakcja Ukraina Sp. z o.o., sold 100% of shares in Trakcja Asfalt Sp. z o.o. and all its shares, i.e. 99%, in Trakcja Infra Sp. z o.o.

On 8 June 2018, a Group company, PDM Białystok S.A., acquired 49.9% of shares in Trakcja Ukraina Sp. z o.o., as a result of which it holds 100% of shares in that company.

For details on the aforementioned events, see Note 3 of the additional notes ("Changes in the Group's structure and their consequences") to the annual consolidated financial statements of Trakcja Group for 2019.

Apart from the above, there were no changes in the structure of the Trakcja Group in 2018.

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

Jednostka dominująca posiada Zintegrowany System Zarządzania, który obejmuje:

- ISO 9001:2008 Quality Management System;
- ISO 14001:2005 Environmental Management System;
- BS OHSAS 18001:2007 OHS Management System, certification of the ISO 45001 system is scheduled for July 2020.

Due to changes in the organizational chart of the Company, and plans related to system certification according to ISO 45001, the system documentation was revised.

At the beginning of July 2019 the supervisory audit of the Integrated Management System was carried out by TUV SUD auditors. The audit was concluded with a positive result. The certificate held by the Parent Company confirms the proper functioning of the three aforementioned systems in the Company. The OHSAS certificate is valid until 11 March 2021, while the ISO 9001 and 14001 certificates are valid until 22 July 2021.

In the course of 2019, the Parent Company continued to implement the CSR strategy based on responsible leadership and management, social engagement, dialogue with stakeholders and social innovation. Through its activities, the Issuer endeavours to contribute to sustainable development from an economic, social and environmental perspective.

In 2019, the Parent Company adopted a new organisational chart and a number of internal procedures which will enable more effective use of human capital and staff competences. This translates into the elimination of the middle management level.

During 2019, there were changes in the composition of the Issuer's Management Board, as described in more detail in Section 6.4. After the balance sheet date and before the publication of this report, there were changes no in the composition of the Issuer's Management Board.

2. BUSINESS OF TRAKCJA GROUP

2.1. Key products, goods and services

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

Comprehensive modernisation of railway lines

Modernisation of the railway lines includes:

- development and agreement of concepts for all industries, preparation of the project construction documentation, detailed design documentation, obtaining of all permits and permissions and also the preparation of the as-built documentation,
- replacement of railway track substructure and superstructure using the mechanised substructure and track machinery, including the development of the drainage system,
- disassembly of a contact line, including the removal of old foundations and the construction of a new contact line with the use of modern methods for positioning foundations, through the application of the piling method and with the use of trains for stream replacement of the network,
- renovation or complete reconstruction of civil engineering facilities, culverts, bridges and overpasses,
- construction of power supply systems for railway lines,
- comprehensive modernisation of railway crossings (crossings of roads with railway lines),
- reconstruction of a railway traffic control system,
- preparation of construction sites,
- construction of complete buildings or parts thereof,
- development of construction systems, civil engineering works for tracks and roads,
- construction of overhead and underground power distribution lines,
- construction of railway and tram electric contact line and hydraulic engineering.

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

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

Construction of buildings

Trakcja Group constructs:

- public utility buildings,
- industrial facilities.

Property development activities

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

- construction works,

- construction of multifamily residential buildings,
- real property activities with own property,
- letting of own property.

Road infrastructure construction

These activities include:

- roads – construction and reconstruction of motorways, roads, streets, squares and car parks; services relating to road maintenance in winter and summer,
- bridges – construction and reconstruction of bridges, viaducts and flyovers,
- tunnels – construction and reconstruction of tunnels,
- airports – construction and reconstruction of airport runways and landing areas, air plane parks and special purpose areas.

Power engineering construction

These activities include:

- development of concepts, design documentation and obtaining the necessary permits for power networks and stations,
- construction of power networks and substations, including for high voltage systems,
- construction of power systems in buildings,
- diagnostic, measurement and maintenance services for electrical networks and systems.

Other activities

Other activities include:

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

As at 31 December 2019, Trakcja PRKiI's construction order backlog stood at PLN 2,295 million (excluding the portion of revenue attributable to consortium members). In 2018, the Company signed construction contracts with a total value of PLN 974 million (excluding the value of work attributable to consortium members). As at 31 December 2019, the Company's order backlog ensures full utilisation of production capacity in the next financial year. Participation in new tenders in 2020 will enable the Company to secure its order backlog for subsequent periods to an even greater extent.

As at 31 December 2019, the Trakcja Group's construction order backlog stood at PLN 2,997 million (excluding the portion of revenue attributable to consortium members). In 2018, the Trakcja Group companies signed construction contracts with a total value of PLN 1,788 million (excluding the value of work attributable to consortium members). As at 31 December 2019, the Trakcja Group's order backlog ensures full utilisation of production capacity in the next financial year. Participation in new tenders in 2020 will enable the Group to secure its order backlog for subsequent periods to an even greater extent.

Trakcja Group mainly implements railway and road construction contracts on the Polish and Lithuanian markets. The Group's equipment and human resources potential allows it to execute large contracts worth several dozen to several hundred PLN, which means that the Group is less focused on local investments.

The largest contracts executed by Trakcja Group in 2019 are presented in the table below (the contract amount indicated taking into account the value of work to be performed by the consortium members):

Lp.	Name of the contract	Net amount of the contract (PLN million)	Type of work
1.	Project and construction of the S61 express road in Szczuczyn-Budzisko (National border) with the division into tasks: Task No. 2: section Ełk Południe node - Wysokie node (along with the wyplot along the national road 16)	568	road
2.	Reconstruction of track systems together with accompanying infrastructure on the E59 railway line, Stargard - Szczecin Dąbie section as part of the project "Works on the E59 railway line on the Poznań Główny - Szczecin Dąbie section"	561	railway
3.	Modernization of the E30/C-E30 railway line on the Kraków – Rzeszów section, stage III (Dębica - Sędziszów Małopolski)	430	railway
4.	Execution of construction works in LCS Łowicz – section: Sochaczew – Żychlin and section: Placencja – Łowicz Główny as part of the task "Works on the E20 railway line on the Warszawa-Poznań section – other works, section: Sochaczew-Swarzędz"	422	railway
5.	Designing and execution of construction works as part of the project "Works on railway lines No. 140, 148, 157, 159, 173, 689, 691 on the section Chybie - Żory - Rybnik - Nędza / Turze"	395	railway
6.	Development of detailed designs and execution of works for LCS Warszawa Okęcie as part of the Project POIiŚ 7.1-19.1.a. pn. "Modernization of the railway line No. 8, section Warsaw Okęcie - Radom (LOT A, B, F)"	382	railway
7.	Design and execution of construction works on the E20 railway line, section: SiedlceTerespol within the task "Works on the E20 railway line on the Siedlce - Terespol section, stage III - LCS Terespol"	377	railway
8.	Design and execution of works within the framework of the project construction of the Szczecin Metropolitan Railway using the existing sections of railway lines No. 406, 273, 351 - task A pn. "Modernization of railway line No. 406 on the section Szczecin Główny - Police"	376	railway
9.	Reconstruction of track systems together with accompanying infrastructure on the E59 railway line, Choszczno - Stargard section as part of the project "Works on the E59 railway line on the Poznań Główny - Szczecin Dąbie section (without a contingent amount)"	376	railway
10.	Execution of design and construction works under the project entitled "Revitalization of railway lines No. 694/157/190/191 Bronów - Bieniowiec - Skoczów - Goleszów - Cieszyn / Wisła / Głębce" Partial order A: Design and execution of construction works on the Bronów - Wisła - Głębce section	349	railway
11.	Modernizacja linii kolejowej E 30/C-E 30, odcinek Kraków – Rzeszów, etap III; na odcinku Sędziszów Małopolski – Rzeszów Zachodni w km 133,600 – 154,900	313	railway
12.	Design and construction of the S-5 expressway on the section from the Szubin junction (with the junction) to the Jaroszewo junction (with the junction) of about 19.3 km in length	313	road

13.	Implementation of construction works under the Tender No. 1 - Modernization of the Jaworzno Szczakowa - Trzebinia section (km 1,150 - 0.000 line No. 134, km 15,810 - 29,110 lines No. 133) as part of the project "Modernization of the E 30 railway line, Zabrze section - Katowice - Kraków, stage IIb "	286	railway
14.	"Reconstruction of track layouts along with accompanying infrastructure on the E59 railway line section Poznań Główny - Rokietnica" as part of the project "Works on the E 59 railway line on the Poznań Główny - Szczecin Dąbie section" (Updated contract value, not including the contingent amount)	276	railway
15.	Task A: Preparation of project documentation and execution of the construction works under the project „Revitalization of railway line no. 405, section: voivodeship border – Słupsk–Ustka", Task B: Design and building of railway traffic control equipment from railway station Szczecinek km 71,480 to km 104,515 within the project „Increase of safety and liquidation of operating dangers at the rail network"	175	railway
16.	Modernization of the E59 railway line on the Wrocław - Poznań section, stage III - section Czempiń - Poznań	164	railway
17.	Reconstruction of the A1 Vilnius-Kaunas-Klaipeda road 99.29 - 100.47 km	114	road
18.	Designing and execution of works under the project construction of the Szczecin Metropolitan Railway using the existing sections of railway lines No. 406, 273, 351 - Task B pn. "Modernization of selected passenger infrastructure on railway lines No. 273, 351 and 401"	105	railway
19.	Order regarding the design and execution of construction works - optimization of the energy transmission network in north-eastern Lithuania and its preparation for the operation of a synchronous transmission network in continental Europe (order No. 189494)	102	railway

2.2. Sales structure

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

Structure of the Company's sales:

	2019		2018	
	value	share	value	share
Railway works	631 625	75,7%	597 662	59,5%
Road works	117 984	14,1%	312 917	31,2%
Bridge works	413	0,0%	4 520	0,5%
Tramway works	64 104	7,7%	15 698	1,6%
Energy works	6 021	0,7%	44 678	4,4%
Production	10 221	1,2%	17 334	1,7%
Other areas of activity	3 842	0,5%	11 486	1,1%
Total revenues from sales	**834 210**	**100%**	**1 004 295**	**100%**

Structure of the Group's sales:

	2019		2018	
	value	share	value	share
Railway works	667 433	46,3%	647 463	41,5%
Road works	491 494	34,1%	712 200	45,6%
Bridge works	79 102	5,5%	32 961	2,1%
Cubature works	5 788	0,4%	4 508	0,3%
Tramway works	69 341	4,8%	19 728	1,3%
Energy works	65 168	4,5%	44 678	2,9%
Production	17 830	1,2%	50 262	3,2%
Other areas of activity	44 618	3,1%	48 848	3,1%
Total revenues from sales	**1 440 774**	**100%**	**1 560 648**	**100%**

2.3. Markets and supply sources

Geographical structure of sales in 2019 and 2018 is presented in the table below:

	2019		2018	
	value	share	value	share
Domestic	973 646	67,6%	1 118 687	71,7%
Abroad	467 128	32,4%	441 961	28,3%
Total revenues from sales	**1 440 774**	**100%**	**1 560 648**	**100%**

The key customer of the Group is PKP Polskie Linie Kolejowe S.A. ("PKP PLK S.A."), and other customers include: the General Directorate for National Roads and Motorways, the Lithuanian Road Administration and the Vilnius City Office.

The structure of customers indicates that the Group is dependent on PKP PLK S.A. whose orders in the period from 1 January 2019 to 31 December 2019 accounted for approximately 45% of the Group's consolidated revenue. On the other hand, approximately 14% of the Group's revenue in 2019 was earned from the implementation of projects for the Lithuanian Road Administration. None of these counterparties has any formal links with the Group.

The structure of suppliers in the period under review shows that the Group is not strongly dependent on any of its counterparties. In 2019, no supplier accounted for more than 10% of the value of materials and services purchased by the Group.

2.4. Events of 2019

Significant construction contracts	CR
07.02.2019 The Company acting as the Leader of the Consortium with COMSA S.A.U. (the Partner) signed today a contract with Municipality of Cracow, represented by Director of the Board of Municipal Infrastructure and Transport of Cracow, which covers conducting of construction works falling under the contract for the task "The renovation of tramway track on Krakowska Street at the section Rollego Street – Dietla Street along with renovation of current road system, sidewalks, paths, technical infrastructure, turnout node on Krakowska-Dietla-Stradomska as well as renovation of Dietla Street at the section Bożego Ciała Street – Augustiańska Street and renovation of existing Piłsudski Bridge across the Vistula River" The net value of the contact is PLN 76,592,220.49. The works are to be finished within 10 months after the date of handing over the construction site, as well as the possibility of using tramway tracks for tram traffic within 8 months after the date of handing over the construction site.	2/2019
26.04.2019 AB Kauno tiltai has concluded a sales agreement for companies in UAB Pletros investicijos with its registered office in Lithuania and transfer of rights and obligations, including legally for claims arising from the loan agreement concluded between AB Kauno Tiltai and the company being sold.	7/2019
22.05.2019 The Company made a statement on the withdrawal, for reasons attributable to the ordering party, from the contract concluded on 19 April 2017 by the Contractor from the Kujawsko-Pomorskie Voivodeship No. ZDW.N4.363.02.2016, whose subject was the implementation of the task 'Expansion of the provincial road no. 548 Stolno-Wąbrzeźno from km 0 + 005 to km 29 + 619, excluding the motorway junction in the city of Lisewo from km 14 + 144 to km 15 + 146' ('Agreement') in the unfinished part of the Agreement.	9/2019
04.07.2019 The Company as a Consortium Leader signed with PKP Polskie Linie Kolejowe S.A. with headquarters in Warsaw ('Ordering Party'), a contract for the execution of construction works: 'Reconstruction of track layouts along with accompanying infrastructure on the E59 railway line Stargard - Szczecin Dąbie section as part of the »Work on the E59 railway line on the Poznań Główny - Szczecin Dąbie section« project'.	28/2019
08.08.2019 The company announced that on August 8, 2019, a subsidiary AB Kauno tiltai has signed a contract for the performance of construction works 'Reconstruction of the trunk road of national importance A1 of Vilnius - Kaunas – Klaipeda section from 99.29 to 100.47 km'	34/2019
01.10.2019 The Management Board of Trakcja informed that the agreement concluded by the company AB Kauno Tiltai with its registered office in Lithuania, belonging to the Issuer's Capital Group regarding: - sale of all shares in UAB Pletros investicijos with its registered office in Lithuania (hereinafter referred to as the 'Company'), in which AB Kauno Tiltai held 100% shares; - transfer of rights and obligations, including rights to claims under claims, arising from the loan agreement concluded between AB Kauno Tiltai and UAB Pletros investicijos with its registered office in Lithuania.	52/2019
10.10.2019 The Company informed that has signed with PKP Polskie Linie Kolejowe S.A. with its registered office in Warsaw, a contract for the design and execution of construction works "»Revitalization of railway lines No. 694/157/190/191 Bronów - Bieniowiec - Skoczów - Goleszów - Cieszyn/Wisła/Głębce« Partial order A: Design and execution of construction works on the section Bronów - Wisła Głębce".	57/2019
11.10.2019 The Company informed that as a Consortium Leader signed with PKP Polskie Linie Kolejowe S.A. with its registered office in Warsaw, a contract for the execution of construction works: "Reconstruction of track systems together with accompanying infrastructure on the E59 railway section, Choszczno-Stargard section as part of the project »Works on the E59 railway line, section Poznań Główny - Szczecin Dąbie«".	60/2019
30.12.2019 The Company informed that it was notified about the execution of an agreement by the Issuer's subsidiary, AB Kauno Tiltai (based in Lithuania) with the Lithuanian Railways for the performance of construction works: "Construction of the Second Road Section of the Plungė-Šateikiai Railway".	87/2019

Refinancing process	CR
18.02.2019 The Company adopted a resolution on the commencement of actions aimed at refinancing the Company's existing banking financing and recapitalizing the Company by way of issue of new shares.	4/2019
13.06.2019 The Company in order to ensure the continuity of financing the operations conducted by the Company until it obtains long-term financing, the Company signed the bridging financing documentation to the total amounts: - 31.000.000,00 PLN of a working loan opened in term contracts, which was made available under a Loan Agreement; - 33.000.000,00 PLN guarantee lines that have been made available under the Loan Agreement; - 70.618.725,62 PLN guarantee lines granted on the basis of Bilateral Warranty Lines; and - 20.000.000,00 PLN of a loan granted under the Loan Agreement.	12/2019
21.06.2019 the Company signed: 1. an annex to the loan agreement concluded on 13 June 2019 2. an annex to the agreement on the unification of selected terms and conditions of guarantee agreements and surety agreement dated 13 June 2019.	19/2019
24.06.2019 The Company signed annex to agreement regarding bridging financing concluded on 13 June 2019, according to which: (i) the loan availability period was extended until June 28, 2019 and (ii) the loan repayment date was changed to July 31, 2019.	20/2019
26.06.2019 The Company signed annex No. 2 to the loan agreement concluded on June 13, 2019 between the Company and COMSA S.A.U. Pursuant to Annex No. 2 to the Loan Agreement, the period of making the loan granted to the Company pursuant to the Loan Agreement was extended until July 29, 2019.	21/2019
26.06.2019 The Company signed annex No. 2 to the agreement on the unification of selected terms and conditions of guarantee agreements and surety agreement dated 13 June 2019. Pursuant to Annex No. 2 to the Agreement, the period of availability of guarantee lines was extended until July 29, 2019 (inclusive).	22/2019
27.06.2019 The Company signed an annex to the agreement between creditors concluded on June 13, 2019. According to the Annex, the period of cooperation between entities that are parties to the Agreement between Creditors has been extended until 30 July 2019.	24/2019
29.07.2019 The company announced that it had signed signed an annex to the loan agreement, which extends the period of granting the revolving loan to each of the guarantee lines and changes the repayment date of the revolving loan.	32/2019
30.07.2019 The Company informed that on 30 July 2019, the Company signed the following documents: 1. annex to the agreement between the creditors concluded on June 13, 2019 extending the period of cooperation of entities that are parties to the Agreement between Creditors; 2. annex to the loan agreement concluded on June 13, 2019 changing the loan repayment date.	33/2019
29.08.2019 The Management Board of the Company informed that on 29 September 2019, the Company signed the following documents: 1. annex to the loan agreement concluded on June 13, 2019 between the Company and COMSA, S.A.U. changing loan repayment date; 2. annex to the loan agreement concluded on June 13, 2019 extending the loan availability period, the availability period for each of the guarantee lines and changing the repayment date of the working capital loan.	40/2019
30.08.2019 The Company informed that on August 29, 2019, an annex to the agreement between creditors concluded on June 13, 2019 extending the period of cooperation of entities being parties to the Agreement.	41/2019

27.09.2019 The Company provided the delayed on March 14, 2019 confidential information regarding the commencement of negotiations by the Company with Agencja Rozwoju Przemysłu SA ('ARP') regarding the potential for ARP to participate in the increase in the Company's share capital under consideration by the Company.	46/2019
27.09.2019 The Management Board of the Company received from ARP a letter according to which ARP confirmed that, provided that the Company concluded the documentation regulating the conditions of refinancing the Company's debt with financial institutions (Long-term Financing Documentation) and The Company specified in the Long-term Financing Documentation terms of payment of funds, as well as the adoption by the General Meeting of the Company of resolutions on increasing the Company's share capital and amending the Company's statute, in the wording acceptable to ARP, ARP will be ready to participate in the process of recapitalization of the Company by taking up shares in the increased share capital of the Company.	47/2019
27.09.2019 The Management Board of Trakcja informed that on September 27, 2019, the Company signed the following documents regarding bridge financing: - annex to the loan agreement concluded on June 13, 2019 between the Company and COMSA extending the loan repayment day to October 14, 2019 - annex to the agreement between creditors concluded on June 13, 2019, extending the period of cooperation used by the parties until October 11, 2019 - annex to the loan agreement concluded on June 13, 2019, extending the repayment date of the working capital loan, after fulfillment of the conditions precedent set out in the Annex, on October 11, 2019 (inclusive). At the same time, the Management Board of the Company informed that On September 27, 2019, the Company signed the documentation of the target long-term financing covering: - an annex introducing the amended and unified Loan Agreement concluded between the Company and Related Entities and mBank S.A. with its registered office in Warsaw, Credit Agricole Bank Polska S.A. with its registered office in Wrocław, Bank Gospodarstwa Krajowego with headquarters in Warsaw as creditors and Agencja Rozwoju Przemysłu S.A. with headquarters in Warsaw as a lender, on the basis of which borrowers will be granted new revolving credits and a new line guarantee for advance repayment guarantees.	51/2019
04.10.2019 The Company informed that on October 3, 2019, the Company signed a short-term subordinated loan agreement with COMSA, S.A.U. ('COMSA') ('Loan Agreement'), pursuant to which COMSA will provide the Company with a loan up to the maximum total amount of PLN 14,237,507.25 in two tranches.	53/2019
04.10.2019 The Company informed that on 4 October 2019 the Company and mBank S.A. concluded an agreement on the placement of New Issue Shares and to commence the offering of 10,279,909 of ordinary series B bearer shares with a nominal value of PLN 0.80 per share, and not less than 13,014,209 but not more than 25,014.209 Series C ordinary registered shares with a nominal value of PLN 0.80 each in the form of a private subscription within the meaning of Article 431 § 2 (1) of the Commercial Companies Code, excluding the pre-emptive right of the existing shareholders of the Company addressed to no more than 149 selected investors.	54/2019
07.10.2019 The Company informed that as part of activities aimed at implementing the provisions contained in the Resolution on the Share Capital Increase, and taking into account the results of the completed process of building the book of demand for ordinary series B bearer shares and ordinary series C registered shares, with the consent of the Company's Supervisory Board, the total number of Series C Shares at 24 771 519 shares. Pursuant to the Resolution on the Increase of the Share Capital, the total number of Series B Shares is 10,279,909 shares. The total number of Offered Shares is 35 051 428 shares.	55/2019
10.10.2019 The Company informed that it has concluded agreements with investors to subscribe for 10,279,909 Series B Shares and 24,771,519 Series C Shares. The price for each Series B Share and each Series C Share, in accordance with the Resolution, was PLN 1.70. The total price for the Shares acquired was PLN 59,587,427.6, of which 12,242,952 Series C Shares were acquired by the current shareholder of the Company - COMSA S.A.U. and COMSA claims against the Company paid in offsetting in the total amount of PLN 20,813,018.40.	58/2019

11.10.2019 The Company informed that on October 10 this year received a notification from mBank S.A., acting as a cooperation agent, about the fulfillment on October 10, 2019 conditions precedent specified in the agreement of common conditions of September 27, 2019 therefore on October 10, 2019. The Common Terms Agreement entered into force.	59/2019
11.10.2019 The Company informed that as a result of the acquisition of ordinary registered series C shares by COMSA S.A.U. agreement on limiting the disposal of shares concluded on October 8, 2019 between the Shareholder, mBank S.A. and Santander Bank Polska S.A - Santander Brokerage House entered into force.	61/2019
24.10.2019 The Company published the information about the completed subscription of 10 279 909 B series ordinary bearer shares of nominal value of PLN 0.80 each and 24 771 519 C series registered shares of nominal value of PLN 80 each.	63/2019
25.10.2019 The Company informed that on October 25, 2019 the National Depository of Securities inc. („KDPW") issued declaration No. 892/2019 refers to finalization of contract between KDPW and the Company concerning registration of securities in depository kept by KDPW equal to 10.279.909 (in words: ten million two hundred seventy nine thousand nine hundred and nine) rights to ordinary series B bearer shares of the Company with a nominal value of PLN 0.80 (in words: eighty groszy) each ("Rights to Series B Shares") under the ISIN code PLTRKPL00097 which are allowed to for regulated market trading.	64/2019
31.10.2019 The Company informed about the undertaking by the Management Board of the Warsaw Stock Exchange of Resolution No. 1133/2019 of October 31, 2019, pursuant to which the Management Board of WSE is to introduced on November 6, 2019, on stock market trading on the primary market 10.279.909 rights to ordinary series B bearer shares of the Company with a nominal value of PLN 0.80 each ("Rights to Series B Shares"), under condition of registration of Rights to Series B Shares no later than November 6, 2019, by National Depository of Securities inc. and marking of Rights to Series B Shares with the code "PLTRKPL00097".	65/2019
06.11.2019 The Company informed that it had received information about statement of Operations Department of the National Depository for Securities inc. („KDPW") no. ONP/2019/119 of November 5, 2019, informing that in accordance with the decision of KDPW of October 25, 2019, no. 892/2019 on November 6, 2019, in KDPW will register 10,279,909 rights to series B bearer ordinary shares marked with the ISIN code PLTRKPL00097.	66/2019
29.11.2019 The Company informed about the registration by the District Court for the Capital City of Warsaw in Warsaw of the increase of share capital and the amendment of the Company's Statute, which had been passed by the Company's Extraordinary Shareholders Meeting on 27 September 2019.	73/2019
11.12.2019 The Company informed that Krajowy Depozyt Papierów Wartościowych S.A. [Central Securities Repository of Poland] ("KDPW") issued the statement no. 1112/2019 on the conclusion of an agreement between the KDPW and the Company on the registration in the securities repository maintained by the KDPW of 10 279 909 B Series ordinary bearer shares with the nominal value of PLN 0.80 per share under the code ISIN PLTRKPL00014, on the condition of admitting the B Series shares for trading on the regulated market.	81/2019
12.12.2019 The Company informed that it was notified about the resolution no. 1254/2019 of 11 December 2019 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. [Warsaw Stock Exchange] ("GPW") on setting the last date of listing the rights to the Company's B series ordinary bearer shares on the GPW's Main Market. The Management Board of GPW set 13 December 2019 as the last day of listing the 10 279 909 B Series shares, designated by Krajowy Depozyt Papierów Wartościowych S.A. with the code "PLTRKPL00097".	82/2019
13.12.2019 The Company's Management Board communicated that it was notified about the announcement of the Operations Department of Krajowy Depozyt Papierów Wartościowych S.A. ("KDPW") no. ONP/2019/119 of 5 November 2019, informing that pursuant to the KDPW decision (statement) of 25 October 2019 no. 892/2019, on 6 November 2019 the KDPW will register the 10 279 909 rights to the B series ordinary bearer shares designated with the code ISIN PLTRKPL00097.	83/2019

Changes in the Management Board	CR
18.06.2019 The Powszechne Towarzystwo Emerytalne PZU Spółka Akcyjna with its registered office in Warsaw, being the shareholder of the Company, submitted the candidature of Mr. Michał Hulbój as a member of the Company's Supervisory Board.	14/2019
19.06.2019 The Management Board of Trakcja PRKiI S.A. informed that today the Ordinary General Meeting of Trakcja PRKiI S.A. appointed the Supervisory Board of the Company.	16/2019
27.09.2019 The Company informed that Mr Marek Kacprzak and Mr Maciej Sobczyk submitted resignation from the function of Member of the Management Board with the effect for the day September 30th, 2019.	50/2019
10.10.2019 The Company informed that the Supervisory Board of the Company adopted on 10 October 2019 a resolution, under which Mr. Arkadiusz Arciszewski was appointed the Deputy President of the Management Board of the Company as of 10 October 2019.	56/2019
04.12.2019 The Company informed that the shareholder of Agencja Rozwoju Przemysłu S.A. [Industrial Development Agency] has submitted a written statement on appointing Mr Adam Stolarz as a Management Board Member in charge of the Company' key accounts, and Mr Robert Sobków as a Management Board Member in charge of internal audit.	75/2019
04.12.2019 The Company informed that it has received a resignation of Mr Wojciech Napiórkowski from the function of a Member of the Company's Supervisory Board as of 4 December 2019. Simultaneously, the Company informed that the shareholder of Agencja Rozwoju Przemysłu S.A. has submitted a written statement on the appointment of Ms Klaudia Budzisz as a Member of the Company's Supervisory Board.	77/2019
20.12.2019 The Company informed that it has received a resignation of Mr Łukasz Rozdeiczer-Kryszkowski from the function of a Member of the Company's Supervisory Board as of 20 December 2019. Simultaneously, the Company informed that on 20 December 2019 the shareholder of Agencja Rozwoju Przemysłu S.A. has submitted a written statement on the appointment of Mr Krzysztof Tenerowicz as a Member of the Company's Supervisory Board.	85/2019

Other	CR
18.01.2019 The Company made public dates of publication of periodic reports in 2019.	1/2019
18.02.2019 The Company published the preliminary financial results for the period of 12 months ended on 31 December 2018.	3/2019
29.03.2019 The Company changed terms of periodic reports publication.	5/2019
23.04.2019 The Company has decided to recognize write-off of the value of investments in subsidiaries in Trakcja PRKiI's balance sheet in the amount of PLN 10.746 thousand and the value of goodwill in Trakcja Group's consolidated balance sheet in the amount of PLN 24.243 thousand.	6/2019
06.05.2019 The Company informed that in published „Standalone annual report of Trakcja PRKiI for the financial year 2018" and „Consolidated annual report of Trakcja Group for the financial year 2018", as a result of mistake the Issuer published an incorrect document.	8/2019
23.05.2019 The Management Board of Trakcja PRKiI convened the Ordinary General Meeting of Trakcja PRKiI S.A. as at June 19, 2019 at 9:00 in Warsaw, in the Grodno hall at the Polonia Palace Hotel, Al. Jerozolimskie 45.	10/2019
31.05.2019 The Management Board of Trakcja PRKiI convened the Extraordinary General Meeting of Trakcja PRKiI S.A. as at June 28, 2019 at 9:00 in Warsaw, in the Chicago hall at the Polonia Palace Hotel, Al. Jerozolimskie 45	11/2019
17.06.2019 The Company informed that on May 31, 2019, the District Court for the capital city of Warsaw in Warsaw, XVIII Commercial Division under the reference number XVIII GU 543/19, received a motion from Impression for declaration of bankruptcy including the liquidation of the Company's assets, including with an application to secure the Company's assets by appointing a temporary court supervisor. In addition, the Company has determined that Impression has been requested to fill in the formal deficiencies of the above-mentioned application and, as a result, it is currently not subject to further court proceedings.	13/2019

18.06.2019 The Company informed that it had received from the shareholder COMSA S.A. draft resolution regarding the matter foreseen in item 11 of the agenda of the Ordinary General Meeting of the Company. According to the content of the proposed draft resolution, the changes proposed by the Shareholder are related to, among others with the conclusion by the Company on 13 June 2019 of a loan agreement. It was indicated that the submitted projects are aimed at clarifying the content of the draft resolution published by the Company's Management Board.	15/2019
19.06.2019 The Company made public the content of resolutions adopted by the Ordinary General Meeting of the Company, which was held on June 19, 2019.	17/2019
19.06.2019 The Company forwarded a list of shareholders holding at least 5% of the total number of votes at the Ordinary General Meeting of the Company, which was held on 19 June 2019 in Warsaw.	18/2019
26.06.2019 The Company informed that on June 26, 2019 it received from COMSA, S.A.U. being a shareholder of the Company notification of the intention of the Shareholder to request a break in the proceedings of the Extraordinary General Meeting of the Company, convened for June 28, 2019, until July 12, 2019.	23/2019
28.06.2019 The Management Board of Trakcja PRKiI announced a break in the deliberations until 12 July 2019, until 9:00.	25/2019
28.06.2019 The Company provided a list of shareholders holding at least 5% of the total number of votes at the Extraordinary General Meeting of the Company on June 28, 2019.	26/2019
02.07.2019 The Company provided answers to the following questions of the Company's shareholders submitted in accordance with art. 428 § 1 of the Code of Commercial Companies during the debates of the Extraordinary General Meeting of the Company on June 28, 2019	27/2019
12.07.2019 The Company informed that the Extraordinary General Meeting of the Company decided to abandon consideration of issues included in items 4) and 5) of the agenda of the Extraordinary General Meeting convened for June 28, 2019, which deliberations were interrupted until July 12, 2019	29/2019
12.07.2019 The Company provided a list of shareholders holding at least 5% of the total number of votes at the Extraordinary General Meeting of the Company, resumed after the break on July 12, 2019.	30/2019
12.07.2019 The Management Board of Trakcja convened the Extraordinary General Meeting of Trakcja PRKiI S.A. as at August 9, 2019.	31/2019
09.08.2019 The Company informed the Extraordinary General Meeting of the Company adopted a resolution on abandoning the consideration of matters included in items 3), 4) and 5) and removing them from the agenda.	35/2019
09.08.2019 The Company provides a list of shareholders holding at least 5% of the total number of votes at the Extraordinary General Meeting of the Company on August 9, 2019 in Warsaw.	36/2019
09.08.2019 The Management Board convened the Extraordinary General Meeting of Trakcja PRKiI S.A. as at September 13, 2019 at 9:00 in Warsaw.	37/2019
26.08.2019 The Company announced a change in the date of publication of the report for the first half of 2019.	38/2019
27.08.2019 The Company provided preliminary estimated financial results of the Trakcja Capital Group for the period of 6 months ended on 30 June 2019.	39/2019
13.09.2019 The Company informed that the Extraordinary General Meeting of the Company convened for September 13, 2019 announced a break in the proceedings until September 25, 2019.	42/2019
13.09.2019 The Company provides a list of shareholders holding at least 5% of the total number of votes at the Extraordinary General Meeting of the Company on September 13, 2019 in Warsaw.	43/2019
25.09.2019 The Company informed that the Extraordinary General Meeting of the Company convened for September 13, 2019 announced a break in the proceedings until September 27, 2019.	44/2019
25.09.2019 The Company provides a list of shareholders holding at least 5% of the total number of votes at the renewed Extraordinary General Meeting of the Company on September 25, 2019 in Warsaw.	45/2019
27.09.2019 The Company published the content of the resolutions adopted by the Extraordinary General Meeting of the Company (‘EGM’), convened for September 13, 2019, which took place on September 27, 2019 after the resumption of the EGM.	48/2019

27.09.2019 The Company provides a list of shareholders holding at least 5% of the total number of votes at the renewed Extraordinary General Meeting of the Company on September 27, 2019 in Warsaw.	49/2019
11.10.2019 The Company informed that it had received a notification pursuant to art. 19 paragraph 1 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Regulation on market abuse) and repealing Directive 2003/6/WE of the European Parliament and of the Council and Commission Directive 2003/124/WE, 2003/125/WE and 2004/72/WE submitted by Comsa S.A.U.	62/2019
06.11.2019 The Company informed that it had received a notification from PZU SA Pension Society acting on behalf of the PZU Open Pension Fund "Złota Jesień" (OFE PZU), that the share of OFE PZU in the total number of votes in the Company lowered below of 10% of the total number of votes.	67/2019
07.11.2019 The Company informed that it had received a notification from Agencji Rozwoju Przemysłu S.A. („ARP"), that the share of ARP in the total number of votes in the Company increased above of 5% of the total number of votes.	68/2019
08.11.2019 The Company informed that the date of publication of the consolidated report for report for 3rd quarter of 2019 (QSr) containing 3-quarter condensed separate financial information - originally planned for 14 November 2019 is moved to November 28, 2019.	69/2019
13.11.2019 The Company informed that on November 13, 2019 it received a correction of notification of November 6, 2019, sent pursuant to art. 69 par. 1 point 2 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies - from PZU SA Pension Society acting on behalf of the PZU Open Pension Fund "Złota Jesień" (OFE PZU).	70/2019
14.11.2019 The Management Board convened the Extraordinary General Meeting of Trakcja PRKiI S.A. as at December 11, 2019 at 9:00 in Warsaw.	71/2019
22.11.2019 The Company has made public the initial financial results of the Company and the Trakcja Capital Group for the 9-month period ended September 30, 2019.	72/2019
22.11.2019 The Company has published a correction of the report on the initial financial results of the Company and the Trakcja Capital Group for the 9-month period ended September 30, 2019.	72/2019/K
04.12.2019 The Company informed that it has received a notice from Powszechne Towarzystwo Emerytalne PZU S.A. [Pension Fund Society] on decreasing the share of OFE PZU in the total number of votes in the Company below the threshold of 10%.	74/2019
04.12.2019 The Company informed that it has received a notice from Agencja Rozwoju Przemysłu S.A. on ARP's share exceeding the threshold of 15% in the total number of votes in the Company.	76/2019
05.12.2019 The Company informed that it has received a notice from COMSA S.A.U. on COMSA's share exceeding the threshold of 32% in the total number of votes in the Company.	78/2019
11.12.2019 The Company announced the resolutions undertaken by the Company's Extraordinary Shareholders Meeting, which was held on 11 December 2019.	79/2019
11.12.2019 The Company presented a list of shareholders holding at least 5% of the total number of votes in the Extraordinary Shareholders Meeting, which was held on 11 December 2019 in Warsaw.	80/2019
18.12.2019 The Company's Management Board convened the Extraordinary Shareholders Meeting of Trakcja PRKiI S.A. to be held on 14 January 2020.	84/2019
26.12.2019 The Company informed that it has receive a decision of the District Court for the capital city of Warsaw in Warsaw, issued in close session during proceedings initiated by Impression Sp. z o.o. based on Warsaw, pursuant to which the Court decided to: 1. Dismiss the request of Impression to announce the Company's bankruptcy; 2. Dismiss the request to freeze the Company's assets. i.e. the request to appoint a temporary insolvency administrator; 3. Determine that the costs of the proceedings are charged in full to Impression, and impose the obligation on Impression to reimburse the Company with the incurred costs of the proceedings essential for pursuing the Company' remedies and defence, whereas detailed calculations of costs were to be performed by a court referendary in the Distirct Court for the Capital City of Warsaw in Warsaw.	86/2019

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

Long-term contracts for construction services performed by the companies within the Group have a major impact on their financial performance in 2019 and in the following years. The most considerable contracts performed in the course of 2019 are listed in Note 2.1 hereof. Information regarding the most significant contracts for construction services concluded in 2019 is presented in Note 2.6 hereof. Significant events after the balance sheet date are described in Note 5.7 hereof.

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

2.6. Significant contracts

2.6.1. Significant construction contracts

Key construction contracts signed by the Trakcja Group companies in 2019 (the contract amount indicated taking into account the value of work to be performed by the consortium members):

Lp.	Name of the contract	Net amount of the contract (PLN million)	Company	Type of work
1	Reconstruction of track systems together with accompanying infrastructure on the E59 railway line, Stargard - Szczecin Dąbie section as part of the project "Works on the E59 railway line on the Poznań Główny - Szczecin Dąbie section"	561	Trakcja PRKiI S.A.	railway
2	Reconstruction of track systems together with accompanying infrastructure on the E59 railway line, Choszczno - Stargard section as part of the project "Works on the E59 railway line on the Poznań Główny - Szczecin Dąbie section"	398	Trakcja PRKiI S.A.	railway
3	Execution of design and construction works under the project entitled "Revitalization of railway lines No. 694/157/190/191 Bronów - Bieniowiec - Skoczów - Goleszów - Cieszyn / Wisła / Głębce" Partial order A: Design and execution of construction works on the Bronów - Wisła - Głębce section	349	Trakcja PRKiI S.A.	railway
4	2018 / pcsr-3-11 / 8290 Construction of a double track over a section Plungė - Šateikiai	199	AB Kauno tiltai	railway
5	Recontruction of A1 Wilno-Kowno-Kłajpeda 99,29 - 100,47 km	116	AB Kauno tiltai	road
6	Veddestabron, Project Mälarbanan	80	AB Kauno Tiltai sverige	urban (bridges)
7	Reconstruction of the tram track along Krakowska St. on section from Rollego St. to Dietla St. along with reconstruction of existing road system, pavements, paths, accompanying technical infrastructure, junction Krakowska - Dietla - Stradomska along with reconstruction of Dietla St. on section from Corpus Christi St. to Augustiańska St. and with reconstruction of existing Piłsudski bridge across the Vistula River	77	Trakcja PRKiI S.A.	tram
8	A1 Reconstruction of section Wilno-Kowno-Kłajpeda from 10 000 to 95 000 Part IV	48	AB Kauno tiltai	road
9	Kaunas City Taikos Ave. preparation and work of the technical repair project	42	AB Kauno tiltai	road
10	Reconstruction of railway viaduct on Brasas station	39	AB Kauno tiltai	railway
11	National road No. 195 Renovation of Kiejdan - Krekenava - Penevezys section from 5.00 to 16.90 km and reconstruction of bridge over Kruosta	37	AB Kauno tiltai	railway
12	Construction of a primary school building with infrastructure at Dzika Street in Ząbki	35	PRK7 Nieruchomości	cubature
13	Other	286		
	TOTAL	**2 267**		

2.6.2. Insurance contracts

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

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

Third party liability insurance contracts for the Management Board members have been signed with the consortium of Colonnade Insurance Societe Anonyme branch in Poland, HCC International Insurance Company PLC and Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A.

2.6.3. Cooperation agreements

The Group has signed framework cooperation agreements concerning financial market transactions with mBank S.A. and Luminor Bank AB. The agreements set out the principles of cooperation in the area of financial market transactions between the Group and the bank.

2.7. Key deposits and capital investments

2.7.1. Investments in tangible and intangible assets

In 2019, investment expenditure in the Company and the Group amounted to PLN 6,870 thousand and PLN 18,096 thousand, respectively.

The following investment projects were completed in 2019:

Company:

	Acquisition for cash	Leasing	Credits and loans	Total
Development investments	205	-	-	205
Replacement investments	3 554	3 111	-	6 665
Total	**3 759**	**3 111**	**-**	**6 870**

Group:

	Acquisition for cash	Leasing	Credits and loans	Total
Development investments	209	456	-	**665**
Replacement investments	11 831	4 874	216	**16 921**
Modernization investments	510	-	-	**510**
Total	**12 550**	**5 330**	**216**	**18 096**

The following investment projects were completed in 2018:

Company:

	Acquisition for cash	Leasing	Credits and loans	Total
Development investments	15 169	28	-	15 197
Replacement investments	2 387	28 762	-	31 149
Total	**17 556**	**28 790**	**-**	**46 346**

Group:

	Acquisition for cash	Leasing	Credits and loans	Total
Development investments	17 042	901	-	**17 943**
Replacement investments	10 345	31 492	-	**41 837**
Modernization investments	1 544	12	-	**1 556**
Total	**28 931**	**32 405**	**-**	**61 336**

Capital expenditure within individual operating segments of the Group was as follows:

- "Civil engineering – Poland" – PLN 9,734 thousand (in 2018: PLN 51,679 thousand);

- "Construction, engineering and concession agreements – Baltic countries" – PLN 7,972 thousand (in 2018: PLN 9,609 thousand);

- other segments – PLN 390 thousand (in 2018: PLN 48 thousand).

In 2020, the Company and the Group plan to incur capital expenditure of approximately PLN 13,777 thousand and PLN 28,666 thousand, respectively. These projects are to be financed as follows:

Company:

Cash	3 530
Financial leasing	10 247
Total	**13 777**

Group:

Cash	16 219
Financial leasing	12 447
Total	**28 666**

In the opinion of the Management Board, the Group is able to implement current and future investment objectives based on own funds generated from core operating activities and leases.

2.7.2. Equity investments of the Group, including equity investments outside the Group

In 2019, the Group made equity investments.

On 8 June 2018, a Group company, PDM Białystok S.A., acquired 49.9% of shares in Trakcja Ukraina Sp. z o.o., as a result of which it holds 100% of shares in that company. For details, see Note 3 of the additional notes to the annual consolidated financial statements of Trakcja Group for 2019.

2.7.3. Strategy and development of the Group

In 2019, the Group continued its organisational and legal restructuring process in order to achieve synergies and enhance its operational efficiency and financial power.

In 2020, Trakcja Group expects to continue to improve the Group's performance, guided by the following strategic principles:

- development through organic growth;
- enhancement of effectiveness and efficiency through improved organisation of works, better use of synergies, and incentive schemes;
- significant improvement in cash flow management;
- intensified use of its own resources during the performance of contracts;
- ensuring increased financing to make up the shortfall, in particular through:

  - finalising settlement negotiations on court claims,

  - additional debt financing,

  - sale of assets.
- selective approach to the performance of contracts under consortium agreements.

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

Active policy on liquidity management of the Parent Company

In addition to activities that contribute to the improvement of future financial performance, the Parent Company's Management Board is primarily focused on the Company's liquidity situation. The Parent Company pursues an active liquidity management policy by monitoring liquidity on an ongoing basis in the short and long-term perspective, aiming at maintaining a stable level of available financing. In order to maintain liquidity, the Parent Company, when seeking new contracts, pays particular attention to their financing terms, in particular the ability to obtain advance payments. In addition, the Parent Company pursues an active policy of maintaining a low level of receivables, managing inventories and selling key materials to the ordering party at the initial stage of a contract. The Parent Company places great emphasis on shortening the period between the completion of works and their invoicing. The Parent Company's activities related to the liquidity situation are described in Note 62 to the consolidated financial statements for 2019.

Active participation in tender procedures

The Parent Company will continue to actively participate in tender procedures for the railway and road construction markets. The current market trend shows that bids from contractors that significantly exceed investor budgets are more and more frequently accepted by contracting authorities.

Strengthening the position on the Polish market for construction and assembly services in the railway sector

In 2020 and beyond, the Management Board of Trakcja PRKiI intends to focus its efforts on the Polish market for construction and assembly services in the railway sector. This objective can be achieved thanks to the effective organisational and financial support for the tendering and contracting area and for the contract implementing area through the establishment of new units, including the Production Preparation and Project Optimisation Department.

The primary objective in financial management will be to improve the efficiency of working capital management. It is expected to result in enhanced liquidity, minimisation of demand for working capital and maintaining a safe level of the Group's debt.

Strengthening the Group's position on other markets

In 2018, the Parent entered the execution phase of construction projects in Germany, successfully completing the first contract - the installation of overhead power line elements on two five-kilometre-long sections of the eHighway between Frankfurt am Main and Darmstadt. In 2019, activities on the German market were continued on an intensive scale. At the end of 2019, the company started the implementation of another contract - a primary school at the United States European Command base (EUCOM) in Stuttgart, where the scope of work included carpentry, concrete and electrical works. The company has consistently maintained the VOB building certification in 11 categories for another consecutive year and launched the Deutsche Bahn certification procedure, opening the possibility of submitting bids to the main ordering party in the railway industry. Recently, the company has actively participated in tenders in Germany, submitting bids mainly in the bridge and building construction sector.

The Group also continued its operations in Ukraine. In 2019, Trakcja Ukraina won a contract with a net value of about PLN 10 million for road works in Chernivtsi District. In the fourth quarter of 2019, the Group repurchased 49.9% of shares in Trakcja Ukraina Sp. z o.o., thus acquiring 100% of shares in that company, and sold shares in Ukrainian subsidiaries, Trakcja Infra Sp. z o.o. and Trakcja Asfalt Sp. z o.o.

Diversification of the Group's business

To diversify its business, in 2018 the Group once again became involved in municipal projects related to the modernisation of tram and trolleybus infrastructure. The Parent Company signed contracts for the implementation of such projects. The Group has also successfully continued its operations in Germany, launching a building construction contract in Stuttgart, and in Ukraine, where it signed a contract for road works in the Chernivtsi District.

2.8. Outlook for the Group

Despite the issues related to the Group's liquidity situation, described in Note 62 to the consolidated financial statements, the Management Board positively assesses the Group's growth outlook for 2020. As at 31 December 2019, the order backlog stood at PLN 2,997 million (excluding the portion of revenue attributable to consortium members).

Trakcja Group has been consistently expanding its competencies in various sectors of infrastructural construction, with a focus on the railway sector. The Parent Company continues to actively participate in tender procedures for the railway market and, to a lesser extent than before, for the road market. There has been a noticeable increase in interest in tenders in the railway sector. The current market trend shows that bids from contractors that significantly exceed investor budgets are more and more frequently accepted by contracting authorities.

According to the National Rail Programme adopted by the Council of Ministers on 23 November 2016, taking into account the resolution of September 2019, increasing the NRP budget by 5.7 billion (and previous updates of the programme), the value of rail construction projects is expected to exceed PLN 75.8 billion by 2023.

In turn, the expected value of the projects implemented under the National Roads Construction Programme (NRCP) after its update in September 2019 is PLN 142.2 billion. In the area of road construction, the Parent Company focuses on securing medium-size projects from provincial and county governments as well as local governments of larger cities. In the preparation for the potential contracts awarded under the local government programmes, the Company established a structure of regional road offices in six different locations in Poland.

The group also competes for building construction contracts.

The Parent Company participates in the expansion into the urban market of tram transport services and simultaneously focuses on the further development on the energy market, in particular, in the area of constructing and modernising transmission lines and of supplying electricity to facilities.

2.9. Description of external and internal factors relevant to the Group's development

Below are presented the key factors which, in the opinion of the Parent Company's Management Board, currently have or may have in the near future an impact on the Group's business. For information on significant proceedings and disputes against the Group companies, as well as penalties, see Note 5.6 to this report.

The key external factors with a significant impact on the Group's financial performance include:

- Level of spending on railway and road infrastructure in Poland and Lithuania.
- Efficient opening and signing of contracts by the Contracting Authorities.
- Competition from other entities.
- Absence of market barriers.
- Prices of raw materials and construction materials.
- Labour market situation in Poland and Lithuania.
- Changes in exchange rates, in particular of the euro.

- The impact of the Central Bank's monetary policy on changes in interest rates on loans.
- Timeliness of payment of liabilities by customers. If liabilities are not repaid on time, the Company's financial liquidity may deteriorate.
- A decrease in the number of entities participating in tenders on the Polish railway market.
- Changes in legal regulations designating the scope of the Group’s activities, including tax regulations and provisions of law regarding any other public charges.
- Level of adjustment of value of construction contracts;
- Epidemic of SARS CoV-2 (COVID-19).

The key internal factors with a significant impact on the Group's financial performance include:

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

2.10. Risk factors and threats

Trakcja PRKiI S.A. Capital Group is exposed to various risks that can be classified according to two categories of threats:

- Ordinary threats.
- Extraordinary threats.

Ordinary threats

Ordinary threats are those that are common and are characterised by a relative regularity of adverse events and developments. This category of risks includes industry risk, contract completion risk and financial risk.

Industry risk is closely related to market competition. The rail and road construction markets in Poland and in Baltic States, where the Company carries out its activities, are attractive due to the expected significant capital expenditure. Entry barriers to the rail and road construction market in Poland and in Baltic States are not high, and therefore the number of new market participants is continuously growing. Non-European players who seek opportunities offered by large contracts are present in this market. Nonetheless, Trakcja Group has a competitive advantage thanks to more than seventy years of market practice, especially in the railway construction industry, thanks to which it managed to develop high quality order performance systems that are highly appreciated by the Partners.

Another risk in the category of ordinary threats is the contract completion risk, inherently associated with the Group's operations. Factors affecting this risk include, among others, changes in the construction law, the Code of Administrative Proceedings, environmental law, changes in prices of service providers, subcontractors' failure to perform or delays in performing work necessary to start the implementation of projects, underestimation of costs, potential penalties for non-compliance with contracts or, last but not least, adverse weather conditions. When performing the construction contracts awarded, the Group company concludes agreements with subcontractors usually after the signing of the agreement with the investor, which may result in risk that the price of service provided for the Group by the subcontractors will be higher than the price forecast at the valuation of a given contract and at its signing. Prices in the agreements with the investor are fixed and cannot be changed during the duration of the contract. Trakcja Group bears a risk of non-compliance with the deadlines for the completion of the construction contracts awarded and the retention bonds granted, which in turn may result in the investor being entitled to take advantage of the collateral established or to impose contractual penalties. The Group is also exposed to a risk of potential disputes regarding the proper or untimely completion of the aforementioned contracts. The aforementioned factors may have an adverse impact of the Issuer's financial performance. However, the Issuer's Management Board takes appropriate measures to minimize these risks by, among other things:

- the implementation of a modern contract management system that allows for budgets and schedules to be managed for many large projects implemented at the same time, based on the detailed data entered in the system in real time;
- constant monitoring the prices for services provided by subcontractors in order to make sure that the parameters of the contracts made are adjusted accordingly to the duration of the contracts and their value in market terms;
- implementing a more effective risk management system for contracts in progress;
- implementation of a central procurement system for all projects and all organisational support units, by which the capital group also intends to generate significant and sustainable cost savings and optimise procurement processes.

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

The last risk in the category of ordinary threats is financial risk. The risk of financial agreements results from the fact that both banks (in the area of loans and contract guarantees) and insurance companies (in the area of contract guarantees) may reduce the availability of sources of funding and other financial instruments which may in turn adversely affect the performance of contracts. Key factors necessary for an insolvency risk to be analysed are the level of cash flows, the amount of cash and the liquidity ratios. The Issuer monitors the cash at hand and maintains both the external debt and the financial liquidity at a safe level. The Issuer's Management Board, by keeping in contact with the Company's customers, consortium partners, subcontractors, banks and insurance companies, is primarily focused on preventing the materialisation of all these risks. These risks are managed by the most senior management of the Group. The restructuring process carried out in previous years is still ongoing. The Company's liquidity problems and problems with timely implementation of projects, including some limitations in obtaining bank or insurance guarantees, continue to cause difficulties in securing larger contracts.

Extraordinary threats

The major extraordinary threat identified as at the date of publication of the Financial Statements is the risk of disruption of operations related to the COVID-19 virus. It is worth emphasising that the construction sector should suffer less from the effects of the coronavirus epidemic than the logistics, transport or tourism sectors. However, there is no doubt that the restrictions imposed by the State entail the risk of hampering the functioning of enterprises and generate organisational and financial problems in a situation where employees will not be able to provide work due to illness or a decision to enforce a quarantine. Another important risk associated with this situation is the difficulty in securing access to materials, consumables or products. Such a threat significantly increases the risk of delays in the performance of infrastructural and building contracts, but the scale of this phenomenon is very difficult to predict at this stage. The Company has already observed some difficulties related to the mobility of foreign workers or some disruptions in the supply of materials. However, the Management Board of the Issuer makes every effort to ensure that the effects of the current coronavirus situation cause as little impact as possible on the Company, e.g. through diversification of material suppliers. Nevertheless, as at the date of this report, the effects of the epidemic are difficult to estimate.

Impact of the SARS CoV-2 (COVID-19) pandemic on the activities and financial condition of the Group

The rapid spread of the SARS CoV-2 virus in Poland and on other markets, on which the Company and its subsidiaries carry out its business activities may have an impact on the Company's financial performance in 2020.
As at the date hereof, the Management Board expects that the actual pandemic state in Poland which results, in particular, in:

- Transport being limited and delivery of components and raw materials being irregular,
- Availability and efficiency of subcontractors being reduced,
- Administrative decisions on the construction contracts implemented being delayed,
- The progress in works experiencing a slowdown due to the introduction of emergency measures in accordance with the guidelines issued by the Ministry of Health and the Chief Sanitary Inspector, and due to the increased absence of employees,
- Costs of certain services, in particular, transport of materials and raw materials, being increased,

  The completion by the Group of contracts, under which the Group companies act as contractors or subcontractors, may be delayed and as a consequence translate into a risk that the contracting parties may file claims for contractual penalties to be paid by the Group companies for untimely completion of contracts. The aforementioned factor may also result in an extraordinary increase in prices for materials and services being experienced, which in turn shall result in the profitability of contracts being reduced. Furthermore, the COVID-19 pandemic may contribute to a decrease in the number of infrastructural investment projects being scheduled for the following years.

Despite the fact that as at the date hereof both the business entities and financial institutions continue their operations, the further spread of the SARS CoV-2 virus may result in the Company's business partners, courts and financial institutions being forced to adapt their operations to the circumstances pending, which may cause delays in obtaining financial funds necessary for the Company to:

- fulfil its financial obligations,
- acquire new contracts, if the Company has no required financial security such as guarantees or deposits,
- meet its obligations under the long-term financing documentation (of which the Company notified in Current Report no. 51/2019 of September 27, 2019) that forms part of the financial restructuring process of the Group.

Measures taken by the Company's Management Board

On April 6, 2020 the Management Board and trade unions concluded an agreement under which the working hours of employees were reduced by 10%, and as a result the salaries paid according to a monthly wage rate were decreased accordingly. The aforementioned reduction in the working hours applies mainly to white-collar employees and at the same time allows for the contract performance potential to be maintained. The agreement remains valid until June 30, 2020.

The aforementioned 10%-decrease applies also to remuneration of the management board members, supervisory board members, and also self-employed and service providers who collaborate with the Company.

In addition, it has been decided that payment of any bonuses, awards, allowances and severance pays is suspended and that overtime and use of company cars are to be reduced. The contribution to the company social benefits fund is also to be reduced by 25%.

The Company estimates that the aforementioned measures will allow it to achieve monthly savings of approximately PLN 1.8 million.

Due to the fact that as at the date hereof the precise and final impact of the SARS CoV-2 pandemic on the Group's situation has not yet been identified, the Company's Management Board monitors on an ongoing basis the developments and analyses the potential impact of the pandemic on the operations, performance and perspectives of both the Company and the Group, including a necessary change in the measurement of contracts and the Group's liquidity ratio.

3. ANALYSIS OF ASSETS AND FINANCIAL CONDITION OF THE GROUP AND THE PARENT COMPANY

3.1. Group's financial performance in 2019

In order to provide a comprehensive view of the Group's financial position, alternative performance measures (APMs) were applied. In the Company's opinion, they provide material information on the financial position, operating efficiency, profitability and liquidity, and should be analysed only as complementary financial information. The alternative performance measures should be read in conjunction with the financial statements of the Group.

The Company believes that the APMs presented are a source of additional, valuable information on the Group's financial standing, and facilitate the analysis and evaluation of the financial performance of the Group in 2018 and 2019.

3.1.1. Consolidated income statement of Trakcja Group

CONSOLIDATED PROFIT & LOSS ACCOUNT	1.01.2019 - 31.12.2019 *Audited*	1.01.2018 - 31.12.2018 *Audited*	Change	Change %
Sales revenues	1 440 774	1 560 648	(119 874)	-8%
Cost of goods sold	(1 509 015)	(1 644 890)	135 875	-8%
Gross profit (loss) on sales	**(68 241)**	**(84 242)**	**16 001**	**-19%**
Cost of sales, marketing and distribution	(5 568)	(5 936)	368	-6%
General and administrative costs	(66 882)	(58 329)	(8 553)	15%
Other operating revenues	6 695	58 115	(51 420)	-88%
Other operating costs	(16 212)	(2 457)	(13 755)	560%
Goodwill impairment	(138 182)	(24 243)	(113 939)	470%
Operating profit (loss)	**(288 390)**	**(117 092)**	**(171 298)**	**146%**
Financial revenues	3 941	4 153	(212)	-5%
Financial costs	(28 920)	(14 465)	-14 455	100%
Gross profit (loss)	**(313 369)**	**(127 404)**	**(185 965)**	**146%**
Income tax	28 321	17 232	11 089	64%
Net profit (loss) for the period	**(285 048)**	**(110 172)**	**(174 876)**	**159%**

In 2019, Trakcja Group's revenue amounted to PLN 1,440,774 thousand, which desreased by 8% year on year. Over the 12 months of 2019, the cost of sales decreased by 8% to PLN 1,509,015 thousand.

In 2019, the Group's gross result on sales reached PLN -68,241 thousand, compared to PLN -84,242 thousand in the corresponding period. The gross margin on sales in the period under review stood at -4.7%, up by 0.7 p.p. compared to the corresponding period of the previous year, i.e. to -5.4%.

Gross result on sales in 2019 was most significantly affected by factors related to the situation in the Group's Parent Company. The most important factors include: settlement of low-margin contracts secured in previous years with more difficult tendering conditions and a significant increase in production costs, revision of contract budgets also in terms of additional costs due to extended lead times; revision of contract budgets with possible and unattainable optimizations on construction contracts, as well as more advanced stage of completion of contracts (mainly road contracts), on which decreases in margins were reported due to the prior increase in contract cost factors. Gross result on sales in 2019 was significantly affected by the prolonged process of refinancing the operating activities of Trakcja PRKiI S.A. exacerbating the drop in profitability on construction contracts. The prolonged refinancing process also had an impact on delays in signing two railway contracts with higher profitability and the inability to settle them in 2019 and thus to generate the projected revenue. The result was positively affected by taking the amounts of court claims filed by the Company against contracting authorities into account in the budgets of long-term contracts. The amount of court claims was adjusted by the risk factor and the probability factor. The amount of claims recoverable by the Company ranges from PLN 35 million to PLN 50 million. In addition, the Parent Company included revenue from claims raised under a contract in the valuation of a significant road contract. The gross result on sales was also affected by the situation in the subsidiary, AB Kauno Tiltai, where the implementation of projects was slower and revenue was carried over to 2020. The subsidiary reported lower profit on sales than in 2018.

Selling, marketing and distribution expenses reached PLN 5,568 thousand and were lower by 6% year on year. General and administrative expenses stood at PLN 66,882 thousand and increased by 15% or PLN 8,553 thousand over the previous year. The increase in general and administrative costs was driven mainly by the costs of consulting and legal services in the Group' s Parent Company in connection with the process of restructuring the company's financing completed in October (as announced by the Company in current report No. 4/2019) in the amount of PLN 4,611 thousand.

Other operating revenue for the period of 12 months of 2019 decreased by PLN 51,420 thousand year on year and amounted to PLN 6,695 thousand. Other operating expenses in 2019 stood at PLN 16,212 thousand and were higher by PLN 13,755 thousand than in the previous year. A decrease in other operating revenue results from the Parent Company recognition in 2018 of income from the sale of perpetual usufruct right to real estate and ownership right to buildings and equipment located on the real estate at ul. Lotnicza 100 in Wrocław for the gross price of PLN 53,000 thousand (see current report No 26/2018). The increase in other operating expenses in 2019 results from the incurred costs of debt collection in the amount of PLN 6,336 thousand. Additionally, the net operating income was affected by changes in the Group's structure in 2019. On 30 September 2019, the agreement concluded AB Kauno Tiltai, a member of the Group, with its registered office in Lithuania, was implemented. The agreement concerned the sale of UAB Pletros investicijos, a wholly-owned subsidiary of AB Kauno Tiltai. The gain on sale of the subsidiary amounted to PLN 3,382 thousand. On 25 October 2019, a Group company, Trakcja Ukraina Sp. z o.o., sold 100% of shares in Trakcja Asfalt Sp. z o.o. and all its shares, i.e. 99%, in Trakcja Infra Sp. z o.o. The transaction closed with a loss of PLN -1,202 thousand.

The Parent Company recognised an impairment loss on goodwill in the amount of PLN 138,182 thousand (subsidiaries of the AB Kauno Tiltai Group: PLN 128,815 thousand and impairment loss on goodwill allocated to the companies: PEUiM Sp. z o.o., Dalba Sp. z o.o. and PDM S.A. in the amount of PLN 9,367 thousand), as disclosed in current report No 8/2020.

The Group closed 2019 with an operating loss of PLN 288,390 thousand, which means a decrease in the operating result by PLN 171,298 thousand compared to the corresponding period of the previous year, when the operating loss amounted to PLN 117,092 thousand. The operating loss results from a negative gross margin on sales in the period, which was caused by the aforementioned factors, an increase in general and administrative costs related to the Company's financial restructuring process and an impairment loss on goodwill in the amount of PLN -138,182 thousand.

The Group's finance income for 2019 amounted to PLN 3,941 thousand, down 5% compared to 2018, when it reached PLN 4,153 thousand. Finance costs increased by 100% in the period in question to PLN 28,920 thousand. The increase in finance costs was primarily caused by increased fee and commission expenses (in the amount of PLN 8,251 thousand) and interest expenses which increased by PLN 5,765 thousand to PLN 16,252 thousand in 2019. These expenses result from the conclusion of a number of long-term and bridge financing agreements in 2019.

In the period from 1 January 2019 to 31 December 2019, the Group incurred a loss before tax of PLN 313,369 thousand, which represents a decrease by PLN 185,965 thousand or 146% from the loss before tax of PLN 127,404 thousand incurred in the corresponding period of the previous year.

Income tax in 2019 had a positive impact on the net loss of PLN 28,321 thousand, as was the case in 2018, when it amounted to PLN 17,232 thousand.

In 2019, Trakcja Group reported a net loss of PLN 285,048 thousand. The Group's net loss increased by 159% year on year.

3.1.2. Consolidated balance sheet of Trakcja Group

The table below presents the assets reported in the annual consolidated statement of financial position of Trakcja Group.

CONSOLIDATED ASSETS	31.12.2019 Audited	31.12.2018 Audited	Change	Change %
Non-current assets	**596 366**	**720 882**	**(124 516)**	**-17%**
Tangible non-current assets	286 228	297 285	(11 057)	-4%
Investment properties	22 447	20 445	2 002	10%
Goodwill from consolidation	168 983	308 782	(139 799)	-45%
Intangible assets	51 389	52 348	(959)	-2%
Investments in other units	25	25	-	0%
Other financial assets	6 202	4 511	1 691	37%
Deferred tax assets	54 755	28 416	26 339	93%
Long-term receivables	158	-	158	-
Prepayments	6 179	9 070	(2 891)	-32%
Current assets	**887 954**	**822 054**	**65 900**	**8%**
Inventory	135 390	86 854	48 536	56%
Trade and other receivables	399 749	328 890	70 859	22%
Income tax receivables	-	3 900	(3 900)	-100%
Other financial assets	12 699	13 773	(1 074)	-8%
Cash and cash equivalents	107 473	116 687	(9 214)	-8%
Prepayments	16 574	13 313	3 261	24%
Assets due to contracts with clients	211 032	206 887	4 145	2%
Assets held for sale	5 037	51 750	(46 713)	-90%
TOTAL ASSETS	**1 484 320**	**1 542 936**	**(58 616)**	**-4%**

As at 31 December 2019, total assets of Trakcja Group amounted to PLN 1,484,320 thousand and decreased by PLN 58,616 thousand from the end of 2018. Non-current assets decreased by PLN 124,516 thousand year on-year to PLN 596,366 thousand as at 31 December 2019. In 2019, current assets increased by PLN 65,900 thousand to PLN 887,954 thousand.

Deferred tax assets recorded the largest increase in non-current assets, having increased by PLN 26,339 thousand relative to the end of 2018. At the same time, the goodwill from consolidation decreased by PLN 139,799 thousand, due to the impairment loss on goodwill in the amount of PLN 138,182 thousand.

Current assets increased by PLN 65,900 thousand or 8% year on year. The largest increase was reported for trade and other receivables which, as at the balance sheet date, increased by PLN 70,859 thousand, i.e. by 22%, to PLN 399,749 thousand. In addition, inventories increased by 56% to PLN 135,390 thousand. It results mainly from an increase in inventories in a subsidiary, AB Kauno Tiltai, by PLN 30,684 thousand, which is related to specific conditions for the performance of a power contract. The largest decrease was recorded for assets held for sale – by PLN 46,713 thousand to the PLN 5,037 thousand. The decrease results from the fact that in 2018 this item included assets relating to UAB Pletros investicijos and UAB Palangos aplinkkelis, in which the subsidiary, AB Kauno Tiltai, held 100% of shares and which were sold in 2019.

The table below presents the equity and liabilities reported in the annual consolidated statement of financial position of Trakcja Group.

CONSOLIDATED EQUITY AND LIABILITIES	31.12.2019 Audited	31.12.2018 Audited	Change	Change %
Equity attributable to shareholders of parent entity	**420 243**	**645 539**	**(225 296)**	**-35%**
Share capital	69 161	41 120	28 041	68%
Share premium account	340 561	309 984	30 577	10%
Revaluation reserve	7 082	5 768	1 314	23%
Other capital reserves	276 188	383 833	(107 645)	-28%
Retained earnings	(285 430)	(111 006)	(174 424)	157%
Foreign exchange differences on translation of foreign operations	12 681	15 840	(3 159)	-20%
Non-controlling interests	**5 241**	**8 841**	**(3 600)**	**-41%**
Total equity	**425 484**	**654 380**	**(228 896)**	**-35%**
Total liabilities	**1 058 836**	**888 556**	**170 280**	**19%**
Long-term liabilities	**232 816**	**93 112**	**139 704**	**150%**
Interest-bearing bank loans and borrowings	207 857	66 371	141 486	213%
Provisions	14 093	13 004	1 089	8%
Liabilities due to employee benefits	4 094	4 810	(716)	-15%
Provision for deferred tax	6 727	8 858	(2 131)	-24%
Derivative financial instruments	8	8	-	0%
Other liabilities	37	61	(24)	-39%
Short-term liabilities	**826 020**	**795 444**	**30 576**	**4%**
Interest-bearing bank loans and borrowings	153 790	132 559	21 231	16%
Trade and other liabilities	408 766	407 341	1 425	0%
Provisions	94 773	59 101	35 672	60%
Liabilities due to employee benefits	13 574	16 572	(2 998)	-18%
Income tax liabilities	238	-	238	-
Other financial liabilities	123	-	123	-
Accruals	506	711	(205)	-29%
Liabilities due to contracts with clients	154 250	141 258	12 992	9%
Group commitments for disposal classified as held for sale	-	37 902	(37 902)	-100%
Total equity and liabilities	**1 484 320**	**1 542 936**	**(58 616)**	**-4%**

As at 31 December 2019, the Group's equity decreased by PLN 228,896 thousand or 35% year on year. The decrease was primarily attributable to the net loss of PLN 285,048 thousand reported in the period under review. Moreover, in 2019 the Parent Company increased its share capital from PLN 41,120 thousand to PLN 69,161 thousand, i.e. by PLN 28,041 thousand through the issue of series B bearer shares and series C registered shares, subscribed for at the issue price of PLN 1.70 per share. Capital raised from the issue of series B and C shares amounted to PLN 59,587 thousand. The share premium, less the cost of capital issue of PLN 969 thousand, amounted to PLN 30,577 thousand. The Company notified of the registration of the share capital increase in current report 73/2019. Other capital reserves decreased by PLN 107,645 thousand and amounted to PLN 276,188 thousand as at 31 December 2019.

As at 31 December 2019, long-term liabilities amounted to PLN 232,816 thousand and increased as compared to the balance as at 31 December 2018 by PLN 139,704 thousand. This increase was primarily driven by an increase in interest-bearing long-term credits and loans by PLN 141,486 thousand.

As at 31 December 2019, employee benefit liabilities stood at PLN 4,094 thousand and decreased by PLN 716 thousand from 31 December 2018. Long-term provisions reached PLN 14,093 thousand, which represents an increase by PLN 1,089 thousand or 8% as compared to 31 December 2018.

Short-term liabilities increased by PLN 30,576 thousand or 4% over 2018. Short-term interest-bearing loans and borrowings increased by PLN 21,231 thousand to PLN 153,790 thousand. Short-term provisions increased by PLN 35,672 thousand to PLN 94,773 thousand. As at the end of 2019, liabilities under contracts with customers stood at PLN 154,250 thousand, up 9% year on year.

3.1.3. Profitability ratios

In 2019, the gross margin on sales increased by 0.7 percentage points year on year to -4.7%. Operating profit before depreciation and impairment losses on goodwill amounted to PLN -112,132 thousand and decreased by PLN 50,690 thousand over the previous year. The EBITDA margin decreased by 3.9 p.p. in 2019 to -7.8%. The operating profit margin in 2019 stood at -20.0% and decreased by 12.5 p.p. in relation to 2018. The net profit margin decreased by 12.7 p.p. to -19.8% compared to -7.1% in 2018. Return on equity (ROE) decreased by 37.8 p.p. year on year to a negative level of -53.5%, while return on assets (ROA) amounted to -18.8% and was 11.4 p.p. lower than that of the previous year.

PROFITABILITY RATIOS	31.12.2019 Audited	31.12.2018 Audited	Change
Gross sales profit margin	-4,7%	-5,4%	0,7 p.p.
EBITDA	(112 132)	(61 442)	(50 690)
EBITDA profit margin	-7,8%	-3,9%	-3,9 p.p.
Operating profit margin	-20,0%	-7,5%	-12,5 p.p.
Net profit margin	-19,8%	-7,1%	-12,7 p.p.
Return on equity (ROE)	-53,5%	-15,7%	-37,8 p.p.
Return on assets (ROA)	-18,8%	-7,4%	-11,4 p.p.

These ratios have been calculated using the following formulae:

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

EBITDA = operating profit + depreciation/amortisation + impairment loss on goodwill

EBITDA margin = (operating profit + amortisation/depreciation + impairment loss on goodwill) / sales revenue

Operating profit margin = operating profit / sales revenue

Net profit margin = net profit / sales revenue

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

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

3.1.4. Consolidated statement of cash flows of Trakcja Group

The key items of the Trakcja Group's consolidated statement of cash flows for years ended 31 December 2019 and 2018 are presented in the table below.

CONSOLIDATED CASH FLOW ACCOUNT	1.01.2019 - 31.12.2019 *Audited*	1.01.2018 - 31.12.2018 *Audited*	Change	Change %
Cash at start of period	**116 675**	**112 172**	**4 503**	**4%**
Net cash flows from operating activities	(190 108)	(34 715)	(155 393)	448%
Net cash flows from investment activities	4 601	(31 699)	36 300	-115%
Net cash flows from financial activities	176 293	73 535	102 758	140%
Total net cash flows	**(9 214)**	**7 121**	**(16 335)**	**-229%**
Assets held for sale - transfer	-	(2 618)	2 618	-100%
Cash at end of period	**107 461**	**116 675**	**(9 214)**	**-8%**

In 2019, net cash flows from operating activities were negative and amounted to PLN 53,020 thousand, down by PLN 190,108 thousand year on year.
In 2019, the Group reported positive net cash flows from investing activities of PLN 4,601 thousand, whereas in 2018 the negative cash flows from investing activities amounted to PLN 31,699 thousand.
In 2019, net cash flows from financing activities were positive and amounted to PLN 176,293 thousand. In 2019, these cash flows increased by PLN 102,758 thousand year on year.
As at the beginning of 2019, the Group's cash reported in the consolidated statement of cash flows amounted to PLN 116,675 thousand and as at the end of 2019, it reached PLN 107,461 thousand. Total cash decreased by PLN 9,214 thousand in 2019.

3.2. Structure of assets, equity and liabilities in the consolidated balance sheet, including from the perspective of the Group's liquidity

As at 31 December 2019, the share of non-current assets in the structure of assets decreased as compared to 31 December 2018. Property, plant and equipment represent the largest share in the structure of non-current assets - about 48% (31 December 2018: 41%). Trade and other receivables, and assets from contracts with customers represent the largest components of current assets – approx. 45% (31 December 2018: 40%) and 24% (31 December 2018: 25%), respectively.

As at 31 December 2019, equity accounts for 29% of total equity and liabilities (31 December 2018: 42%), long-term liabilities – for 16% (31 December 2018: 6%), and short-term liabilities – for 56% (31 December 2018: 52%). Trade and other liabilities represent the largest component of short-term liabilities, accounting for 28% of total equity and liabilities (31 December 2018: 26%).

3.2.1. Liquidity ratios

As at the end of 2019, the Trakcja Group's working capital reached a balance of PLN 62,440 thousand and increased by PLN 35,119 thousand year on year.

As at the end of 2019, the current ratio stood at 1.07, up by 0.04 year on year. The quick ratio dropped by 0.01 to 0.91. The cash ratio declined by 0.02 from the previous year to 0.13. The cash ratio indicates that the Group would be able to immediately settle 13% of its liabilities with the cash held.

LIQUIDITY RATIOS	31.12.2019 Audited	31.12.2018 Audited	Change
Working capital	62 440	27 321	35 119
Current ratio	1,07	1,03	0,04
Quick ratio	0,91	0,92	(0,01)
Cash ratio	0,13	0,15	(0,02)

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

3.2.2. Financing structure ratios

The Group monitors its capital structure using the financing structure ratios.

In 2019, the equity to assets ratio decreased year on year to 0.28. The equity to non-current assets ratio decreased by 0.20 to 0.70. The debt ratio increased to 0.72 at the end of 2019. This means that 72% of the Group's assets are financed by external sources of financing – liabilities. As at the end of 2019, the Group's debt to equity ratio stood at 2.53 as at 31 December 2019.

FINANCING STRUCTURE RATIOS	31.12.2019 Audited	31.12.2018 Audited	Change
Equity to assets ratio	0,28	0,42	-0,14
Equity to non-current assets ratio	0,70	0,90	-0,20
Debt ratio	0,72	0,58	0,14
Debt to equity ratio	2,53	1,39	1,14

The above ratios have been calculated in accordance with the following formulas:
Ownership coverage with equity = equity attributed to Shareholders of the Parent Company / total assets
Coverage of fixed assets with equity = equity attributed to Shareholders of the Parent / fixed assets
Total debt ratio = (total assets - equity attributed to Shareholders of the Parent Company) / total assets
Equity debt ratio = (total assets - equity attributed to Shareholders of the Parent Entity) / equity attribute

3.3. Financial performance of the Parent Company in 2019

In order to provide a comprehensive view of the Parent Company's financial position, alternative performance measures (APMs) were applied. In the Company's opinion, they provide material information on the financial position, operating efficiency, profitability and liquidity, and should be analysed only as complementary financial information. They should be read in conjunction with the Company's financial statements.

The Company believes that the APMs presented are a source of additional, valuable information on its financial standing, and facilitate the analysis and evaluation of the financial performance of the Company in 2018 and 2019.

3.3.1 Overview of the income statement

PROFIT AND LOSS ACCOUNT	1.01.2019 - 31.12.2019 *Audited*	1.01.2018 - 31.12.2018 *Audited*	Change	Change %
Sales revenue	834 210	1 004 295	(170 085)	-17%
Cost of goods sold	(927 100)	(1 129 253)	202 153	-18%
Gross profit (loss) on sales	**(92 890)**	**(124 958)**	**32 068**	**-26%**
Cost of sales, marketing and distribution	(2 148)	(2 778)	630	-23%
General and administrative costs	(36 568)	(28 024)	(8 544)	30%
Other operating revenues	3 446	55 849	(52 403)	-94%
Other operating costs	(13 049)	(1 655)	(11 394)	688%
Operating profit (loss)	**(141 209)**	**(101 566)**	**(39 643)**	**39%**
Financial revenues	5 162	13 479	(8 317)	-62%
Financial costs	(139 519)	(19 886)	(119 633)	602%
Gross profit (loss)	**(275 566)**	**(107 973)**	**(167 593)**	**155%**
Income tax	25 888	21 286	4 602	22%
Net profit for the period	**(249 678)**	**(86 687)**	**(162 991)**	**188%**

In 2019, Trakcja PRKiI S.A.'s revenue amounted to PLN 834,210 thousand, down 17% year on year. In the period under review, the cost of sales decreased by 18% to PLN 927,100 thousand. The gross margin on sales in the period under review stood at -11.1%, whereas in the corresponding period of 2018 it reached 12.4%. The gross loss on sales in 2019 amounted to PLN 92,890 thousand. Factors that had the most significant impact on gross margin on sales in 2019 included the settlement of low-margin contracts secured in previous years with more difficult tendering conditions and a significant increase in production costs, the prolonged process of refinancing the Company's operating activity causing a drop in profitability on construction contracts, revision of contract budgets also in terms of additional costs due to extended lead times; revision of contract budgets with possible and unattainable optimizations on construction contracts, as well as more advanced stage of completion of contracts (mainly road contracts), on which decreases in margins were reported due to the prior increase in contract cost factors. The result was positively affected by taking the amounts of court claims filed by the Company against contracting authorities into account in the budgets of long-term contracts. The amount of court claims was adjusted by the risk factor and the probability factor. The amount of claims recoverable by the Company ranges from PLN 35 million to PLN 50 million. In addition, the Company included revenue from claims raised under a contract in the valuation of a significant road contract.

In 2019, general and administrative expenses amounted to PLN 36,568 thousand and increased by PLN 8,544 thousand, which represents an increase by 30% as compared to the previous year. The increase in costs was driven mainly by the costs of consulting and legal services in connection with the process of restructuring the company's financing (as announced by the Company in current report No. 4/2019) in the amount of PLN 4,611 thousand. In the period under consideration, selling, marketing and distribution expenses amounted to PLN 2,148 thousand and decreased by PLN 630 thousand year on year.

Net other operating revenue was negative and amounted to PLN 9,603 thousand. It decreased by PLN 63,797 thousand year on year. The change resulted primarily from a non-recurring event of 2018, from the recognition by the Company of income from the sale of perpetual usufruct right to real estate and ownership right to buildings and equipment located on the real estate at ul. Lotnicza 100 in Wrocław for the gross price of PLN 53,000 thousand (see current report No 26/2018). Additionally, the decrease in net other operating income was driven by debt collection costs incurred in 2019 in the amount of PLN 6,471 thousand.

The operating loss in 2019 amounted to PLN 141,209 thousand, whereas in the previous year the operating loss amounted to PLN 101,566 thousand.

In the period of 12 months of 2019, the Company earned finance income of PLN 5,162 thousand, which was 62% lower than in the corresponding period of the previous year, mainly due to the decrease in dividend income by PLN 8,478 thousand as compared to 2018. In the period in question, finance costs increased by PLN 119,633 thousand year on year. The increase in finance costs was mainly driven by recognition by the Company of impairment losses on investments in subsidiaries: AB Kauno Tiltai (in the amount of PLN 112,857 thousand) and BTW Sp. z o.o. (in the amount of PLN 1,330 thousand). The Company announced its decision to recognise impairment losses in current report No. 8/2020. The increase in finance costs in 2019 was also attributable to the incurred fee and commission expenses related to the bridge and long-term financing raised, amounting to PLN 6,559 thousand, and interest expenses which increased by PLN 6,356 thousand to PLN 13,915 thousand in 2019.

In 2019, the Company recorded a pre-tax loss of PLN 275,566 thousand. This figure was lower by PLN 167,593 thousand as compared to the previous year, when the Company incurred a loss tax of PLN 107,973 thousand.

The Company closed 2019 with a net loss of PLN 249,678 thousand and a net profit margin of -29.9% (in 2018, the net profit margin was -8.6%).

3.3.2 Overview of the balance sheet

The table below presents the key items of the Trakcja PRKiI's balance sheet as at 31 December 2019 in comparison with their balances as at 31 December 2018:

ASSETS	31.12.2019 *Audited*	31.12.2018 *Audited*	Change	Change %
Non-current assets	**614 028**	**703 516**	**(89 488)**	**-13%**
Tangible non-current assets	167 605	170 144	(2 539)	-1%
Intangible assets	50 510	51 608	(1 098)	-2%
Investment properties	19 789	17 613	2 176	12%
Investments in subsidiaries	311 308	425 495	(114 187)	-27%
Other financial assets	8 340	4 511	3 829	85%
Deferred tax assets	51 162	25 562	25 600	100%
Accruals	5 314	8 583	(3 269)	-38%
Current assets	**614 433**	**553 301**	**61 132**	**11%**
Inventory	64 720	50 361	14 359	29%
Trade and other receivables	297 327	253 130	44 197	17%
Other financial assets	11 777	14 596	(2 819)	-19%
Cash and cash equivalents	47 514	61 451	(13 937)	-23%
Accruals	12 813	9 910	2 903	29%
Contracts with customers assets	175 245	160 028	15 217	10%
Assets held for sale	5 037	3 825	1 212	32%
TOTAL ASSETS	**1 228 461**	**1 256 817**	**(28 356)**	**-2%**

As at 31 December 2019, total assets of Trakcja PRKiI amounted to PLN 1,228,461 thousand and decreased by PLN 28,356 thousand or 2.3% % year on year.

Non-current assets amounted to PLN 614,028 thousand and decreased by PLN 89,488 thousand over the previous year. The most significant decrease, by PLN 114,187 thousand, was reported for investments in subsidiaries, following the recognition of an impairment loss on investments in subsidiaries, AB Kauno Tiltai and BTW Sp. z o.o. On the other hand, deferred tax assets increased by PLN 25,600 thousand, i.e. by 100%, to PLN 51,162 thousand.

As at 31 December 2019, current assets totalled PLN 614,433 thousand and increased by PLN 61,132 thousand or 11% as compared to 31 December 2018. The most significant changes in current assets were reported for trade and other receivables which increased by PLN 44,197 thousand to PLN 297,327 thousand. As at the balance sheet date, assets from contracts with customers amounted to PLN 175,245 thousand and increased by

PLN 15,217 thousand year on year, while inventories increased by PLN 14,359 thousand to PLN 64,720 thousand. Cash and cash equivalents decreased by PLN 13,937 thousand to PLN 47,514 thousand in the period under review.

Equity and liabilities	31.12.2019 *Audited*	31.12.2018 *Audited*	Change	Change %
Equity	**349 925**	**539 705**	**(189 780)**	**-35%**
Share capital	69 161	41 120	28 041	68%
Share premium account	340 561	309 984	30 577	10%
Revaluation reserve	7 082	5 808	1 274	22%
Other capital reserves	182 823	269 508	(86 685)	-32%
Retained earnings	(249 678)	(86 687)	(162 991)	188%
Foreign exchange differences on translation of foreign operations	(24)	(28)	4	-14%
Kapitał własny razem	**349 925**	**539 705**	**(189 780)**	**-35%**
Total liabilities	**878 536**	**717 112**	**161 424**	**23%**
Long-term liabilities	**204 242**	**67 079**	**137 163**	**204%**
Interest-bearing loans and borrowings	199 909	60 989	138 920	228%
Provisions	3 102	3 955	(853)	-22%
Liabilities due to employee benefits	1 231	2 135	(904)	-42%
Short-term liabilities	**674 294**	**650 033**	**24 261**	**4%**
Interest-bearing loans and borrowings	159 479	144 823	14 656	10%
Trade and other liabilities	293 598	313 292	(19 694)	-6%
Provisions	86 440	52 575	33 865	64%
Liabilities due to employee benefits	7 867	9 540	(1 673)	-18%
Accruals	455	574	(119)	-21%
Contracts with customers liabilities	126 455	129 229	(2 774)	-2%
TOTAL EQUITY AND LIABILITIES	**1 228 461**	**1 256 817**	**(28 356)**	**-2%**

As at 31 December 2019, the Company's equity amounted to PLN 349,925 thousand and decreased by PLN 189,780 thousand, i.e. by 35.2% as compared to the balance as at 31 December 2018. This decrease was caused by the generation of a net loss higher by PLN 162,991 thousand compared to the loss in 2018. In 2019 the Company increased its share capital from PLN 41,120 thousand to PLN 69,161 thousand, i.e. by PLN 28,041 thousand through the issue of series B bearer shares and series C registered shares, subscribed for at the issue price of PLN 1.70 per share. Capital raised from the issue of series B and C shares amounted to PLN 59,587 thousand. The share premium, less the cost of capital issue of PLN 969 thousand, amounted to PLN 30,577 thousand. The Company notified of the registration of the share capital increase in current report 73/2019. Other capital reserves decreased by PLN 86,685 thousand and amounted to PLN 182,823 thousand as at 31 December 2019.

Long-term liabilities amounted to PLN 204,242 thousand as at 31 December 2019 and increased by PLN 137,163 thousand or 204.5% as compared to the balance as at the end of 2018. The increase was driven by an increase in interest-bearing credits and loans by PLN 138,920 thousand as compared to the balance as at 31 December 2018.

Short-term liabilities amounted to PLN 674,294 thousand as at 31 December 2019 and increased by PLN 24,261 thousand or 3.7% year on year. The above increase was driven by an increase in the balance of liabilities on account of interest-bearing credits and loans by PLN 14,656 thousand and an increase in provisions for contract losses by PLN 33,865 thousand. Trade and other liabilities decreased in the period under review by PLN 19,694 thousand, i.e. by 6.3% as compared to the balance as at 31 December 2018.

3.3.3 Overview of the statement of cash flows

The key items of Trakcja PRKiI's statement of cash flows for years ended 31 December 2019 and 2018 are presented in the table below.

CASH FLOW STATEMENT	1.01.2019 - 31.12.2019 *Audited*	1.01.2018 - 31.12.2018 *Audited*	Change	Change %
Cash at start of period	**61 451**	**20 618**	**40 833**	**198%**
Net cash flows from operating activities	(187 949)	(53 020)	(134 929)	254%
Net cash flows from investment activities	(4 280)	(8 734)	4 454	-51%
Net cash flows from financial activities	178 292	102 587	75 705	74%
Total net cash flows	**(13 937)**	**40 833**	**(54 770)**	**-134%**
Cash at end of period	**47 514**	**61 451**	**(13 937)**	**-23%**

As at the beginning of 2019, the Company's cash amounted to PLN 61,451 thousand and as at the end of 2019, it reached PLN 47,514 thousand.

The net cash flows in the period in question were negative and amounted to PLN 13,937 thousand.

In 2019, net cash flows from operating activities were negative and amounted to PLN 187,949 thousand. It decreased by PLN 134,929 thousand as compared to the corresponding period of the previous year.

In 2019, the Company reported negative net cash flows from investing activities of PLN 4,280 thousand, whereas in the corresponding period of 2018 negative cash flows from investing activities amounted to PLN 8,734 thousand.

In 2019, net cash flows from financing activities reached a positive balance of PLN 178,292 thousand. The above amount resulted primarily from proceeds from credits and loans in the amount of PLN 182,768 thousand.

3.4. Financial ratios of Trakcja PRKiI

3.4.1 Profitability ratios

The gross margin on sales increased to -11.14% in 2019 compared to -12.44% in the corresponding period of the previous year. The operating profit before depreciation and amortisation decreased by PLN 33,799 thousand to PLN -120,785 thousand, while the EBITDA margin decreased by 5.82 p.p. to -14.48%. The operating profit margin decreased by 6.82 p.p. to -16.93%. The net profit margin in the period under review stood at -29.93%.

The return on equity (ROE) amounted to -56.13% and decreased by 41.33 p.p. compared to the corresponding period of the previous year. Return on assets (ROA) decreased by 12.76 p.p. and stood at -20.09%.

PROFITABILITY RATIOS	31.12.2019 *Audited*	31.12.2018 *Audited*	Change
Gross sales profit margin	-11,14%	-12,44%	1,30 p.p.
EBITDA	(120 785)	(86 986)	(33 799)
EBITDA profit margin	-14,48%	-8,66%	-5,82 p.p.
Operating profit margin	-16,93%	-10,11%	-6,82 p.p.
Net profit margin	-29,93%	-8,63%	-21,30 p.p.
Retyrn in equity (ROE)	-56,13%	-14,80%	-41,33 p.p.
Return on assets (ROA)	-20,09%	-7,33%	-12,76 p.p.

These ratios have been calculated using the following formulae:
Gross margin on sales = gross profit on sales / sales revenue
EBITDA = operating profit + amortisation/depreciation
EBITDA margin = (operating profit + amortisation/depreciation) / sales revenue
Operating profit margin = operating profit / sales revenue

Net profit margin = net profit / sales revenue
Return on equity (ROE) = net profit / average equity
Return on assets (ROA) = net profit / average assets

3.4.2 Liquidity ratios

As at 31 December 2019, the working capital of Trakcja PRKiI S.A. amounted to PLN -59,406 thousand and increased by PLN 36,752 thousand year on year.

As at the end of 2019, the current ratio stood at 0.91, up by 0.06 year on year. The quick ratio reached 0.82, up by 0.05 on the previous year. The cash ratio declined to 0.07. This ratio indicates that the Company would be able to immediately settle 7% of its liabilities with the cash held.

LIQUIDITY RATIOS	31.12.2019 *Audited*	31.12.2018 *Audited*	Change
Working capital	(59 406)	(96 158)	36 752
Current ratio	0,91	0,85	0,06
Quick ratio	0,82	0,77	0,05
Cash ratio	0,07	0,09	(0,02)

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

3.4.3 Financing structure ratios

The Company monitors its capital structure using the financing structure ratios.

As at 31 December 2019, the equity to assets ratio amounted to 0.28 and decreased by 0.15 year on year. The equity to non-current assets ratio decreased by 0.20 as compared to 31 December 2018. As at the end of 2019, the debt ratio increased by 0.15 year on year to 0.72. The debt to equity ratio also increased from 1.33 as at the end of 2018 to 2.51 as at the end of 2019.

Financing structure ratios	31.12.2019 *Audited*	31.12.2019 *Audited*	Change
Equity to assets ratio	0,28	0,43	-0,15
Equity to non-current assets ratio	0,57	0,77	-0,20
Debt ratio	0,72	0,57	0,15
Debt to equity ratio	2,51	1,33	1,18

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

Ownership coverage with equity = equity attributed to Shareholders of the Parent Company / total assets

Coverage of fixed assets with equity = equity attributed to Shareholders of the Parent / fixed assets

Total debt ratio = (total assets - equity attributed to Shareholders of the Parent Company) / total assets

Equity debt ratio = (total assets - equity attributed to Shareholders of the Parent Entity) / equity attributed

3.5. Assessment of financial resources management

At the end of 2019, Trakcja Group held cash of PLN 107,473 thousand and, at the same time, total debt on account of credits, loans and finance leases amounted to PLN 361,647 thousand. The Group maintains the level of external financing as well as financial liquidity that allow it to execute its current contract portfolio.

As at the balance sheet date, the Group had at its disposal undrawn credit lines (overdrafts and working capital facilities) in the amount of PLN 83.4 million, which ensures continuity of financing of current operations for the Trakcja Group companies.

In addition to activities that contribute to the improvement of future financial performance, the Parent Company's Management Board is primarily focused on the Company's liquidity situation. The Parent Company pursues an active liquidity management policy by monitoring liquidity on an ongoing basis in the short and long-term perspective, aiming at maintaining a stable level of available financing. In order to maintain liquidity, the Parent Company, when seeking new contracts, pays particular attention to their financing terms, in particular the ability to obtain advance payments. In addition, the Parent Company pursues an active policy of maintaining a low level of receivables, managing inventories and selling key materials to the ordering party at the initial stage of a contract. The Parent Company places great emphasis on shortening the period between the completion of works and their invoicing. The Parent Company's activities related to the liquidity situation are described in Note 62 to the consolidated financial statements for 2019.

On 13 June 2019, to maintain liquidity until the date of signing the agreement on restructuring / obtaining new financing and capital, the Parent Company signed bridge financing documentation. On 27 September 2019, the Company signed the documentation of the target long-term financing. Under the Restated Facility Agreement and on the terms and conditions specified therein, the Parent Company and the Related Parties, being the borrowers, were granted:

(i) revolving loan 1 disbursed in drawings up to the total amount of PLN 31,000,000 for the purpose of paying any overdue liabilities and financing the ongoing activities or for granting intra-group loans with the maturity date up to December 31, 2022, the funds have been acquired at the stage of bridge financing,

(ii) revolving loan 2 in the total amount of up to PLN 75,000,000 and an open-end loan to be disbursed on the same terms and the revolving loan in the total amount of up to PLN 27,600,000 for the purpose of financing the working capital and ongoing activities of the Company with the maturity date of December 31, 2022,

(iii) revolving loan 3 disbursed in drawings in the total amount of up to PLN 17,600,000 granted for the purpose of financing the working capital and ongoing activities with the maturity date of December 31, 2022,

(iv) revolving loan 4 disbursed in drawings in the total maximum amount of up to PLN 12.000.000 granted for the purpose of financing the working capital and ongoing activities with the maturity date of December 31, 2022, which was not disbursed as at the balance sheet date,

(v) non-revolving guarantee line granted within the bridge financing for the reimbursement of advance payment under a specific contract concluded by the Company and whose beneficiary is PKP Polskie Linie Kolejowe S.A., in the total amount of PLN 25,000,000,

(vi) non-revolving guarantee line granted within the bridge financing for the performance bond, whose beneficiary is Generalna Dyrekcja Dróg Krajowych i Autostrad, in the total amount of PLN 8,000,000,

(vii) revolving guarantee line for advance payment guarantees for new contracts made by the Company or the Related Parties, whose beneficiary is the entity acceptable to all the issuers of such a guarantee in the total amount of PLN 200,000,000.

Note 10 to the separate financial statements for 2019 presents details of the process of aimed at obtaining bridge financing and long-term financing. Information indicating the risk to the going concern status was presented in the same note to the separate financial statements for 2019.

3.6. Assessment of factors and non-recurring events having an impact on the Trakcja Group's performance in 2019

The key factors and non-recurring events affecting the Trakcja Group's performance in 2019 are as follows:

- Settlement of low-margin contracts awarded in the previous years that were more difficult in terms in contract awarding opportunities and before a significant increase in the production costs;
- prolonged process of refinancing the operating activities of Trakcja PRKiI S.A. exacerbating the drop in profitability on construction contracts;
- Prolonged refinancing process had also an effect on a delay in signing two railway contracts with higher profitability and on the Company's inability to settle them in 2019, and therefore to generate the revenues planned;
- Budgets were revised in terms of their nature, amounts, distribution in time and uncertainty as to whether revenues and cash flows from the contracts performed would be generated;
- During the revision of budgets, opportunities and threats were analysed, including the identification and inclusion of any risks of technology, implementation and liquidity;
- For two railway contracts, the Company recognised revenues in the amount of the costs incurred in keeping with IFRS 15 para. 45.
- taking the amounts of court claims filed by the Company against contracting authorities into account in the budgets of long-term contracts. The amount of court claims was adjusted by the risk factor and the probability factor. The amount of claims recoverable by the Company ranges from PLN 35 million to PLN 50 million;
- inclusion of revenue from claims raised under a contract in the valuation of a significant road contract;
- recognition of an impairment loss on goodwill in the consolidated balance sheet of Trakcja Group led to a decrease in the result of Trakcja Group by PLN 138,182 thousand;
- update of contract budgets in the fourth quarter of 2019 in the amount of PLN 138,943 thousand decreased the gross margin on sales of the Parent Company.

3.7. Assessment of the feasibility of investment plans, including equity investment plans

Based on analyses carried out, the Management Board of the Parent Company believes that Trakcja Group is able to finance its current and future investment plans described in Section 2.7.1 hereof, both with internally generated funds and with borrowed funds.

3.8. Hedging transactions

A hedging instrument is a designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

After the initial recognition, the entity measures a financial asset or liability at fair value corresponding to the amount for which an asset may be exchanged or liability settled between knowledgeable, willing parties at arm's length.

Cash flow hedges which meet the conditions for applying hedge accounting are recognised as follows:

- the portion of the gain or loss on the hedging instrument that is considered an effective hedge is recognised as a change in the hedged item;
- the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

Cash flow hedges considered effective are recognised in equity until the hedged asset or liability is recognised.

Cash flow hedges and application of hedge accounting

Polish companies of Trakcja Group do not apply hedge accounting, but as at 31 December 2019 the Lithuanian part of Trakcja Group, namely AB Kauno Tiltai - AB Kauno Tiltai follow the principles thereof.

On 4 and 14 October 2015, one of the Issuer's subsidiaries, i.e. AB Kauno Tiltai made two interest rate swap (IRS) transactions in order to hedge future cash flows expected to arise from interest to be paid on the term loan. Pursuant to the agreement, the company is a payee of amounts at a fixed rate, whereas the bank is a payee of amounts at a variable rate..

Fair value of the IRS contracts is calculated as the present value of future cash flows estimated using the yield curves. During 2019, there was no change in the technique for measuring fair value.

In 2019, the Group assessed the hedge effectiveness of the IRS transactions. In the reporting period, the interest rate hedge was highly effective, and therefore no ineffective part thereof was identified or recognised in profit or loss.

As at 31 December 2019, the impact of hedging instruments on other comprehensive income amounted to PLN -1,505 thousand and resulted from the sale of UAB Pletros investicijos.Explanation of differences between the actual and forecast financial performance of Trakcja Group

The Management Board of the Parent Company did not publish the Company's and the Group's financial forecast for 2019.

4. SHARES AND SHAREHOLDING STRUCTURE OF TRAKCJA PRKiI

4.1. Shareholding structure

As at December 31, 2019 the share capital was PLN 69,160,780.80 and was divided into 51,399,548 series A ordinary bearer shares and 10,279,909 series B ordinary bearer shares and also 24,771,519 series C registered shares with a par value of PLN 0.80 per share. Each share constitutes one vote at the General Meeting of Shareholders. All shares are fully paid-up.

In 2019, the Parent Company's share capital was increased by PLN 28,041,142.40 compared to the previous year, through the issue of series B ordinary bearer shares and series C ordinary registered shares.

Shareholders	Number of shares	% in share capital	Number of votes	% in votes at GSM
COMSA S.A.	28 399 145	32,85%	28 399 145	32,85%
Agencja Rozwoju Przemysłu	16 117 647	18,64%	16 117 647	18,64%
OFE PZU "Złota Jesień"*	8 332 694	9,64%	8 332 694	9,64%
Other	33 601 490	38,87%	33 601 490	38,87%
Total	**86 450 976**	**100,00%**	**86 450 976**	**100,00%**

*represented by the Powszechne Towarzystwo Emerytalne PZU S.A.

4.2. Total number and par value of all shares in the Parent Company and shares in the Company's related entities held by members of the Company's management and supervisory bodies

Members of the Company's Management Board and Supervisory Board do not hold any shares in the Parent Company or in subsidiaries of Trakcja Group.

4.3. Agreements regarding potential changes in the shareholding structure

There are no agreements known to the Company’s Management Board which may cause future changes in the percentages of shares held by the existing shareholders.

4.4. Employee share schemes

In 2019, Trakcja Group did not operate an employee share scheme.

4.5. Acquisition of treasury shares

In 2019, Trakcja PRKiI did not acquire treasury shares.

5. OTHER INFORMATION

5.1. Loans and borrowings contracted and terminated

As at the balance sheet date, Trakcja Group had the following loans and borrowings:

Name of Company	Lender Creditor	Type of loan, credit	Amount by currency contracts (in thousands)	Contract Currency	Maturity date	Interests	Amount left to be paid
Trakcja PRKiI S.A.	mBank S.A., Credit Agricole Bank Polska S.A.	working capital credit	21 500	PLN	31.12.2022	WIBOR 1M + margin	21 550
Trakcja PRKiI S.A.	mBank S.A., Credit Agricole Bank Polska S.A., Bank Gospodarstwa Krajowego	working capital credit	92 600	PLN	31.12.2022	WIBOR 1M + margin	92 814
Trakcja PRKiI S.A.	mBank S.A.	overdraft facility	20 000	PLN	31.12.2022	WIBOR O/N + margin	-
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	50 000	PLN	31.12.2022	WIBOR 1M + margin	40 700
Trakcja PRKiI S.A.	mBank S.A.	investment credit	21 500	PLN	31.12.2022	WIBOR 1M + margin	8 852
Trakcja PRKiI S.A.	COMSA S.A.	loan from related undertaking	4 712	EUR	01.01.2023	WIBOR 1M + margin	7 656
Trakcja PRKiI S.A.	Pekao S.A.	overdraft facility	20 000	PLN	31.12.2022	WIBOR 1M + margin	19 447
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	15 000	PLN	31.12.2022	WIBOR 1M + margin	14 999
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	15 000	PLN	31.12.2022	WIBOR 1M + margin	14 998
Trakcja PRKiI S.A.	De Lage Landen Leasing Polska S.A.	investment loan	1 147	PLN	25.04.2020	variable interest rate	394
Trakcja PRKiI S.A.	Agencja Rozwoju Przemysłu S.A.	loan from related undertaking	27 600	PLN	31.12.2023	WIBOR 1M + margin	27 668
Dalba Sp. z o.o.	mBank S.A., Credit Agricole Bank Polska S.A.	working capital credit	1 000	PLN	31.12.2022	WIBOR 1M + margin	1 000
PDM S.A.	mBank S.A., Credit Agricole Bank Polska S.A.	working capital credit	2 500	PLN	31.12.2022	WIBOR 1M + margin	2 500
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	investment credit	2 500	PLN	30.12.2020	WIBOR 1M + margin	698
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	Idea Getin Leasing	loan from other entities	244	PLN	15.06.2024	WIBOR 1M + margin	227
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	overdraft facility	3 000	PLN	31.12.2022	WIBOR 1M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital credit	400	EUR	14.01.2020	EURIBOR 3M + margin	852
AB Kauno Tiltai	Nordea Dnb	working capital credit	4 000	EUR	31.05.2023	EURIBOR 3M + margin	14 859
AB Kauno Tiltai	Luminor Bank AB	overdraft facility	12 000	EUR	30.06.2020	EURIBOR 3M + margin	-
PRK 7 Nieruchomości Sp. z o.o.	mBank S.A., Credit Agricole Bank Polska S.A.	working capital credit	4 000	PLN	31.12.2022	WIBOR 1M + margin	4 000
Bahn Technik Wrocław Sp. z o.o.	Plasser & Theurer, Export von Bahnbaumaschinen, Gessellschaft m.b.H.	investment loan	1 800	EUR	24.03.2020	fixed interest rate	1 916
Bahn Technik Wrocław Sp. z o.o.	mBank S.A., Credit Agricole Bank Polska S.A.	working capital credit	2 000	PLN	31.12.2022	WIBOR 1M + margin	2 000
						Total	**277 130**

Loans and borrowings contracted in 2019

In the reporting period, companies from Trakcja Group signed the following loan or borrowing agreements.

The Parent Company signed the following agreements:

- a Working capital facility agreement of 13 June 2019 in the total amount of PLN 31,000,000 between the Group companies and banks: mBank S.A. and Credit Agricole Bank Polska S.A., in the total amount of PLN 31,000,000

- a Loan agreement of 13 June 2019 between the Company and COMSA S.A.U. in the amount of PLN 20,000,000

and - a Common Terms Agreement of 27 September 2019 to revolving credit facilities in the total amount of PLN 151,200,000 and to guarantee lines in the total amount of PLN 200,000,000 between the Group Companies, Agencja Rozwoju Przemysłu S.A. and banks: mBank S.A., Bank Gospodarstwa Krajowego and Credit Agricole Bank Polska S.A., as well as guarantee lines between the Group Companies and Insurance Companies in the total amount of PLN 200,000,000

- a Subordinated loan agreement of 3 October 2019 between the Company and COMSA S.A.U., up to the maximum amount of PLN 14,237,507.25.

In 2019, the Company signed annexes to the following loan agreements:

Between the Company and mBank S.A.

- Annex No 3 to agreements for electronic payment of liabilities of 13 July 2018, to master agreements with mBank S.A., extending the term to 14 February 2019;
- Annex No 4 to agreements for electronic payment of liabilities of 13 July 2018, to master agreements with mBank S.A., extending the term to 30 May 2019;
- Annex No 5 to agreements for electronic payment of liabilities of 13 July 2018, to master agreements with mBank S.A., extending the term to 27 June 2019;
- Annex No 6 to agreements for electronic payment of liabilities of 13 July 2018, to master agreements with mBank S.A., extending the term to 30 July 2019;
- Annex No 7 to agreements for electronic payment of liabilities of 13 July 2018, to master agreements with mBank S.A., extending the term to 30 September 2019;
- Annex No 8 to agreements for electronic payment of liabilities of 13 July 2018, to master agreements with mBank S.A., extending the term to 11 October 2019;
- Annex No 9 to agreements for electronic payment of liabilities of 13 July 2018, to master agreement with mBank S.A., extending the facility term, pursuant to provisions of Section 4.2 of the Common Terms Agreement;
- Annex No 34 to the revolving overdraft facility agreement up to PLN 20,000 thousand of 22 March 2000 concluded between the Company and mBank S.A. – extension of the facility term until 29 May 2019;
- Annex No 35 to the revolving overdraft facility agreement up to PLN 20,000 thousand of 22 March 2000 concluded between the Company and mBank S.A. – extension of the facility term until 26 June 2019;
- Annex No 36 to the revolving overdraft facility agreement up to PLN 20,000 thousand of 22 March 2000 concluded between the Company and mBank S.A. – extension of the facility term until 29 July 2019;
- Annex No 37 to the revolving overdraft facility agreement up to PLN 20,000 thousand of 22 March 2000 concluded between the Company and mBank S.A. – extension of the facility term until 27 September 2019;
- Annex No 38 to the revolving overdraft facility agreement up to PLN 20,000 thousand of 22 March 2000 concluded between the Company and mBank S.A. – extension of the facility term until 10 October 2019;

- Annex No 39 to the revolving overdraft facility agreement up to PLN 20,000 thousand of 22 March 2000 concluded between the Company and mBank S.A. – extension of the facility term, pursuant to provisions of Section 4.2 of the Common Terms Agreement;
- Annex No 4 to the investment facility agreement of 26 October 2016 concluded between the Company and mBank S.A., extending the facility term, pursuant to provisions of Section 4.2 of the Common Terms Agreement;
- Annex No 5 to the revolving facility agreement in the amount of PLN 50,000 thousand concluded on 29 April 2015 between the Company and mBank S.A. – assignment of receivables;
- Annex No 6 to the revolving facility agreement in the amount of PLN 50,000 thousand concluded on 29 April 2015 between the Company and mBank S.A. – extension of the facility term to 25 May 2019;
- Annex No 7 to the revolving facility agreement in the amount of PLN 50,000 thousand concluded on 29 April 2015 between the Company and mBank S.A. – extension of the facility term to 27 June 2019 and assignment of receivables;
- Annex No 8 to the revolving facility agreement in the amount of PLN 50,000 thousand concluded on 29 April 2015 between the Company and mBank S.A. – instalment payment method;
- Annex No 9 to the revolving facility agreement in the amount of PLN 50,000 thousand concluded on 29 April 2015 between the Company and mBank S.A. – instalment payment method and extension of the facility term to 30 June 2019;
- Annex No 10 to the revolving facility agreement in the amount of PLN 50,000 thousand concluded on 29 April 2015 between the Company and mBank S.A. – extension of the facility term to 26 September 2019;
- Annex No 11 to the revolving facility agreement in the amount of PLN 50,000 thousand concluded on 29 April 2015 between the Company and mBank S.A. – instalment payment method;
- Annex No 12 to the revolving facility agreement in the amount of PLN 50,000 thousand concluded on 29 April 2015 between the Company and mBank S.A. – extension of the facility term to 30 December 2022;
- Annex No 13 to the revolving facility agreement in the amount of PLN 50,000 thousand concluded on 29 April 2015 between the Company and mBank S.A. – extension of the facility term to 10 September 2019;
- Annex No 14 to the revolving facility agreement in the amount of PLN 50,000 thousand concluded on 29 April 2015 between the Company and mBank S.A. – extension of the facility term, pursuant to provisions of Section 4.2 of the Common Terms Agreement.

Between the Company and Bank PEKAO S.A.:

- Annex No 4 to the revolving facility agreement in the amount of PLN 20,000 thousand concluded on 10 August 2016 between the Company and Pekao S.A. – power of attorney to make deductions of claims;
- Annex No 5 to the revolving facility agreement in the amount of PLN 20,000 thousand concluded on 10 August 2016 between the Company and Pekao S.A. – extension of the facility term to 27 June 2019, change of the interest rate;
- Annex No 6 to the revolving facility agreement in the amount of PLN 20,000 thousand concluded on 10 August 2016 between the Company and Pekao S.A. – extension of the facility term to 31 July 2019;

- Annex No 7 to the revolving facility agreement in the amount of PLN 20,000 thousand concluded on 10 August 2016 between the Company and Pekao S.A. – extension of the facility term to 30 August 2019;
- Annex No 8 to the revolving facility agreement in the amount of PLN 20,000 thousand concluded on 10 August 2016 between the Company and Pekao S.A. – extension of the facility term to 27 September 2019;
- Annex No 9 to the revolving facility agreement in the amount of PLN 20,000 thousand concluded on 10 August 2016 between the Company and Pekao S.A. – extension of the facility term to 11 October 2019;

Between the Company, mBank S.A. and Credit Agricole Bank Polska S.A.:

- Annex No 1 to the revolving facility agreement in the amount of PLN 31,000 thousand concluded on 21 June 2019 between the Company and banks: mBank S.A. and Credit Agricole Bank Polska S.A. – extension of the facility term to 30 July 2019;
- Annex No 2 to the revolving facility agreement in the amount of PLN 31,000 thousand concluded on 2 July 2019 between the Company and banks: mBank S.A. and Credit Agricole Bank Polska S.A. – extension of validity of guarantee (performance bond for contract SZJ01);
- Annex No 3 to the revolving facility agreement in the amount of PLN 31,000 thousand concluded on 5 July 2019 between the Company and banks: mBank S.A. and Credit Agricole Bank Polska S.A. – submission of application for registration of the respective mortgage by 31 July 2019.

The Issuer's subsidiaries signed the following agreements:

A Working capital facility agreement of 21 July 2019 in the total amount of PLN 31,000,000 between the Group companies and banks: mBank S.A. and Credit Agricole Bank Polska S.A., and a Common Terms Agreement of 27 September 2019 to revolving credit facilities in the total amount of PLN 151,200,000 and to guarantee lines in the total amount of PLN 200,000,000 between the Group Companies, Agencja Rozwoju Przemysłu S.A. and banks: mBank S.A., Bank Gospodarstwa Krajowego and Credit Agricole Bank Polska S.A.

1) the Issuer's subsidiary, Torprojekt Sp. z o.o., signed annexes to the Facility agreement of 4 April 2018 with ING Bank Śląski S.A.:
   - No 1 of 23 January 2019 – change of the End Date to 29 March 2019;
   - No 2 of 21 February 2019 – change of the End Date to 30 April 2019 and establishment of security in the form of mortgage over real estate in Marki (Land and Mortgage Register No WA1W/00067228/3) belonging to a subsidiary, PRK7 Nieruchomości sp. z o.o;
   - No 3 of 30 April 2019 – change of the End Date to 10 May 2019;
   - No 4 of 10 May 2019 – change of the End Date to 17 May 2019;
   - No 5 of 17 May 2019 – change of the End Date to 24 May 2019;
   - No 6 of 24 May 2019 – change of the End Date to 31 May 2019;
   - No 7 of 31 May 2019 – change of the End Date to 7 June 2019;
   - No 8 of 7 June 2019 – change of the End Date to 14 June 2019;
   - No 9 of 14 June 2019 – change of the End Date to 28 June 2019;
   - No 10 of 28 June 2019 – change of the End Date to 30 July 2019;
   - No 11 of 30 July 2019 – change of the End Date to 31 August 2019;

- No 12 of 31 August 2019 – change of the End Date to 30 September 2019;
- No 13 of 30 September 2019 – change of the End Date to 11 October 2019;

2) PEUiM Sp. z o.o. and mBank S.A. signed annexes to the facility agreement with mBank S.A. of 12 July 2017:
   - No 3 of 25 April 2019 – extension of the repayment term until 29 May 2019;
   - No 4 of 29 May 2019 – extension of the repayment term until 26 June 2019;
   - No 5 of 24 June 2019 – extension of the repayment term until 30 July 2019;
   - No 6 of 29 July 2019 – extension of the repayment term until 27 September 2019;
   - No 7 of 25 July 2019 – extension of the repayment term until 10 October 2019;
   - No 8 of 11 October 2019 – alignment of the repayment date with the Common Terms Agreement
3) the Issuer's subsidiary, Bahn Technik Wrocław Sp. z o.o., signed annexes to the Facility agreement of 27 May 2015 with ING Bank Śląski S.A.:
   - annex No 5 of 25 January 2019 – change of the End Date to 23 March 2019;
   - annex No 6 of 21 February 2019 – change of the End Date to 30 April 2019.

Loan and borrowing agreements terminated or expired in 2019

In 2019, the facility agreement with ING Bank Śląski of 4 February 2016 expired.

Under the Common Terms Agreement of 27 September 2019, the Parent Company is required to comply with financial covenants related to its current financial standing.

Financial covenants set out in Section 17 of the Common Terms Agreement will be tested on a quarterly basis in the period from 30 September 2020 to 30 September 2022.

5.2. Borrowings extended in the financial year

A list of borrowings extended during 2019 by the Group companies, including to related parties, is presented in the following table.

Lender	Borrower	Amount of loan (th PLN)	Currency	Maturity date	Interests	Amount left to be paid	Capital relationship
Trakcja PRKiI S.A.	Torprojekt Sp. z o.o.	1 900	PLN	30.06.2020	WIBOR 3 M + margin	1 918	subsidiary
Trakcja PRKiI S.A.	Torprojekt Sp. z o.o.	300	PLN	30.06.2020	WIBOR 3 M + margin	302	subsidiary
Trakcja PRKiI S.A.	Torprojekt Sp. z o.o.	300	PLN	30.06.2020	WIBOR 3 M + margin	301	subsidiary
Trakcja PRKiI S.A.	Torprojekt Sp. z o.o.	200	PLN	30.06.2020	WIBOR 3 M + margin	200	subsidiary
PRK 7 Nieruchomości Sp. z o.o.	Trakcja PRKiI S.A.	3 000	PLN	30.06.2020	WIBOR 3 M + margin	3 007	subsidiary
PRK 7 Nieruchomości Sp. z o.o.	Trakcja PRKiI S.A.	1 500	PLN	31.12.2019	WIBOR 3 M + margin	1 541	subsidiary
PRK 7 Nieruchomości Sp. z o.o.	Trakcja PRKiI S.A.	2 500	PLN	31.12.2019	WIBOR 3 M + margin	2 567	subsidiary
Dalba Sp. z o.o.	Trakcja PRKiI S.A.	1 000	PLN	31.12.2019	WIBOR 3 M + margin	1 025	subsidiary
BTW Sp. z o.o.	Trakcja PRKiI S.A.	2 000	PLN	31.12.2019	WIBOR 3 M + margin	2 051	subsidiary
PDM Białystok S.A.	Trakcja PRKiI S.A.	2 500	PLN	31.12.2019	WIBOR 3 M + margin	2 392	subsidiary
PEUiM Sp. z o.o.	Trakcja PRKiI S.A.	5 500	PLN	31.12.2019	WIBOR 1M + margin	1 502	subsidiary
PEUiM Sp. z o.o.	Dalba Sp. z o.o.	200	PLN	31.12.2019	WIBOR 1M + margin	-	subsidiary

5.3. Sureties and guarantees issued and received

The table below summarises guarantees issued by the Parent Company:

Beneficiary	Value of guarantee in thousand PLN
PKP PLK S.A.	585 616
GDDKiA	113 125
WZDW Poznań	9 985
Gmina Kraków	9 421
Województwo Pomorskie	8 427
Other	35 976
Total	**762 550**

The table below summarises guarantees received by the Parent Company:

Subcontractor	Value of guarantee in thousand PLN
Krakowskie Zakłady Automatyki S.A.	17 518
Menard Polska	4 295
Keller Polska	3 426
Bombardier	2 583
Kolejowe Zakłady Automatyki S.A.	2 206
Other	28 390
Total	**58 418**

Under the Common Terms Agreement of 27 September 2019, the Parent Company together with its subsidiaries (without AB Kauno) are Obligated Entities who provided collateral in the form of sureties.

The table below summarises sureties issued by the Parent Company to subsidiaries:

	Value of surety in thousand PLN
To subsidiaries	702 400
Total	**702 400**

The table below summarises sureties issued by subsidiaries to the Parent Company:

	Value of surety in thousand PLN
From subsidiaries	702 400
Total	**702 400**

5.4. Proceeds from issues of securities

On November 29, 2019, by the decision of the District Court of the City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register under KRS, an increase in the Company's share capital was entered into the commercial register. The share capital was increased by resolution no. 5 of the Extraordinary General Meeting of Shareholders adopted on September 27, 2019 on an increase in the share capital from PLN 41,119,638.40 to PLN 69,160,780.80, i.e. by PLN 28,041,142.40 by way of issuing 10,279,909 series B bearer shares acquired at the issue price of PLN 1.70 per share and 24,771,519 series C registered shares acquired at the issue price of PLN 1.70 per share.

The issue of shares of series B and C allowed the Company to acquire the capital which was used for ongoing financial needs of the Company and enabled the current debt to be refinanced. Moreover, the issue of shares was necessary to acquire and implement projects performed by the Company in its relevant operational sectors. In the Management Board’s opinion, the capital acquired supported the further operations of the Company. An increase in the Company’s share capital through the issue of new shares was one of the conditions for acquiring new debt by the Company from financial institutions under the debt refinancing process which the Company undergoes currently. Simultaneously, the increase in the share capital depended also on the success in acquiring funds. The aforementioned measures aimed at restructuring the financial condition of the Company and at maintaining its market position. The Company’s intention was to acquire at least PLN 50,000,000.

5.5. Material off-balance sheet items

	31.12.2019 Audited	31.12.2018 Audited
Contingent receivables		
From related entities due to:	**764 022**	**89 206**
Received guarantees and sureties	762 731	88 366
Bills of exchange received as collateral	1 291	840
Total contingent receivables	**764 022**	**89 206**
From related entities due to:		
From other entities due to:	**8 696 931**	**2 513 844**
Provided guarantees and sureties	899 060	897 239
Promissory notes	521 671	449 589
Mortgages	4 252 519	181 979
Assignment of receivables	1 429 992	887 692
Assignment of rights under insurance policy	120 137	40 483
Security deposits	21 900	24 612
Registered pledges	1 451 652	32 250
Total contingent liabilities	**8 696 931**	**2 513 844**

Contingent receivables arising from guarantees issued comprise guarantees issued by banks or Insurance Companies in favour of the Trakcja Group companies securing the Group's claims against its counterparties in connection with executed construction contracts.

Contingent liabilities arising from guarantees comprise mainly guarantees issued by banks and Insurance Companies to counterparties of the Group companies to secure their claims against the Group companies that may arise on the grounds of executed construction contracts. The banks and Insurance Companies have the right to recourse against the Group companies on that account.

From the balance sheet date to the date of publication of this report, the amount of the Parent Company's exposure under bid bonds, performance bonds and advance payment guarantees decreased by PLN 33,685 thousand.

5.6. Significant court cases and disputes

Below, the Parent Company presents significant proceedings pending before a court or other authority concerning its liabilities or claims and its subsidiaries.

The value of lawsuits filed by the Parent Company against contracting authorities is approx. PLN 156,800 thousand (gross amount plus interest capitalised as of the date of filing the lawsuit).

The Company took court claims filed against contracting authorities into account in the budgets of long-term contracts. The amount of court claims was adjusted by the risk factor and the probability factor. The amount of claims recoverable by the Company ranges from PLN 35 million to PLN 50 million. In addition, the Parent Company included revenue from claims raised under a contract in the valuation of a significant road contract.

Proceedings concerning the Parent Company:

The case concerning claims against Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej with its registered office in Warsaw

The Parent Company merged with Przedsiębiorstwo Robót Kolejowych i Inżynieryjnych S.A. with its registered office in Wrocław. As a result of this merger, the legal successor of both companies is Trakcja PRKiI S.A. with its registered office 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. ("PNI") with an option of composition, Przedsiębiorstwo Robót Komunikacyjnych i Inżynieryjnych S.A. with its registered office in Wrocław provided a submission of claims of 20 November 2012 to the bankruptcy court. The submission covered claims in the total amount of PLN 55,664,100.89, including the principal amount and the interest due up to the declaration of bankruptcy, as well as the accrued contractual penalties.

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

Case against Leonhard Weiss International GmbH

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

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

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

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

Case against ELTRANS sp. z o.o.

On May 30, 2019 the Company filed a lawsuit against ELTRANS sp. z o.o. based in Chorzow for the payment of PLN 2,768,004 plus interest as the payment of remuneration for delivery, assembly and training on operating two oil-less turbochargers.

On January 29, 2020 the court issued a decision to initiate the sanative proceedings.

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

Case against ALSTAL Grupa Budowlana sp. z o.o.

On May 22, 2019 the Company filed a lawsuit against ALSTAL Grupa Budowlana sp. z o.o. based in Jacewo for the payment of PLN 556,683.00 plus interest as the payment of remuneration for construction works performed as a contractor within the scope of the project ordered by Tauron Dystrybucja S.A. entitled "Network Management Development in Wrocław"

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

Proceedings against PKP PLK S.A.

On 31 October 2017, the Parent Company filed a case against PKP PLK S.A. for the payment of PLN 46,747,276.90 (including, interest of PLN 4,913,969.34), requesting that compensation be paid to it in connection with extension of the completion date of the agreement entitled: "Design and completion of construction works on the railway line Kraków – Medyka – State border, at the section Podłęże – Bochnia, km 16.000 – 39.000 as part of the project "Modernisation of railway line E 30/C-E30, section Kraków – Rzeszów, phase III" and a part of the lump-sum fee due to the Parent Company and unpaid by PKP PLK S.A. due to the submission of an unjustified statement on the withdrawal from the Agreement in part. On 12 December 2017, the Parent Company extended the claim whose current value is PLN 50,517,012.38 (including, interest of PLN 5,336,177.01). The extension pertained to the Parent Company's claims against PKP PLK S.A. in relation to the groundless enforcement of the contractual penalties accrued and the part of remuneration for the performance of the contract and agreements for additional works, which PKP PLK S.A. unreasonably refuses to pay. On October 18, 2018, the Parent Company extended the claim to PLN 51,767,012.38. The damage of the Parent Company includes PLN 1,250,000.00, which the Parent Company was obliged to pay to the Bocheński Poviat in order to satisfy the request of PKP PLK S.A. concerning the earlier – than it resulted from the Work Schedule – launching of track 1 on the Bochnia route - Brzesko Okocim. On 6 May 2019, the Parent Company extended the claim to PLN 84,121,127. The Parent Company extended the scope of the claims pursued also by the claims for damages against PKP PLK S.A., including tort claims of its subcontractors: Arcadis sp. z o.o., Torpol S.A. and PUT Intercor sp. z o.o. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 31 October 2017, the Company along with Przedsiębiorstwo Budowlane "FILAR" Spółka z ograniczoną odpowiedzialnością with its registered office in Wrocław, and Berger Bau Polska Spółka z ograniczoną odpowiedzialnością with its registered office in Wrocław, has filed a case against PKP PLK S.A. for reimbursement of additional costs related with the extension of the completion date of the Contract No 90/116/0006/11/Z/I for basic linear construction works at the section Wrocław – Grabiszyn – Skokowa and Żmigród – border of the Dolnośląskie Province within the scope of the project entitled "Modernisation of railway line E 59 at the section Wrocław – Poznań, Stage II – section Wrocław – border of the Dolnośląskie Province". On 29 March 2018, an extension of a claim pursued as part of the case to include claims of another subcontractor – INFRAKOL Sp. z o.o. Sp.K. The Parent Company's portion of the claim is PLN 11,640,113.77 (including, interest of PLN 1,415,797.02). The case is at the early stage of proceedings and its resolution date is difficult to predict.

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

a) additional works in connection with Contract No 90/132/121/00/17000031/10/I/I dated 16 December 2010 for the "Design and implementation of the construction works at the railway line Kraków – Medyka – national border, at the section Dębica – Sędziszów Małopolski (111.500 km – 133.600 km) under the project POIiŚ 7.1-30 "Modernisation of railway line E30/C-E 30, section Kraków – Rzeszów, phase III" Tender proceedings 2.2" in the total amount of PLN 7,570,281.00,
b) additional works in connection with Contract No. 90/132/336/00/17000031/10/I/I dated 29 November 2010 for the "Design and implementation of the construction works at the railway line Kraków – Medyka – national border, at the section Sędziszów Małopolski – Rzeszów Zachodni under the project "Modernisation of railway line E3/C-E 30, section Kraków – Rzeszów, phase III" Tender proceedings 2.3" in the total amount of PLN 2,829,000.00. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 27 August 2018, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 6,675,193.36 PLN (in words: six million six hundred seventy five thousand one hundred ninety three zlotys and thirty six groszy) along with statutory interest for delay, as compensation for unjust enrichment of the defendant in the form of unpaid remuneration for the performance of additional works related to the implementation of Agreement No 90/132/121/00/17000031/10/I/I of 16 December 2010 for “Designing and execution of construction works on the Kraków - Medyka - State border railway line on the Dębica - Sędziszów Małopolski section in km 111,500 - 133,600 as part of the POIiŚ 7.1-30 project "Modernization of the E30 / CE 30 railway line, Kraków - Rzeszów section, stage III" Tender 2.2 "specified in the Contractor's Applications No. 72 (gas pipeline) and No. 85 (Bystrzyca creek), which constitutes the principal amount of the present claim, i.e. PLN 6,283,547.59 and capitalized interest on the principal for the period from 6 October 2017 to 27 August 2018.The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 22 October 2018, the Company filed a lawsuit for payment against PKP PLK S.A., seeking the amount of PLN 632,459.66 (in words: six hundred thirty-two thousand four hundred fifty-nine zlotys and sixty-six grosz) along with statutory interest for delay, for additional works not provided for in the Agreement No 90/107/0086/17/Z/I of 14 March 2017 for the preparation of design documentation and performance of construction works on the Poznań Wschód - Mogilno section from km 0.265 to km 73.000, as a part of the project: “Works on the railway line No 353 Poznań Wschód-Dziarnowo”, i.e. works on the construction of additional access ways to platforms at the Wydartowo station, additional suspension of the overhead contact line on the Wydartowo - Trzemeszno route and preparation of maps for design purposes, as well as incurring additional costs related to the unpredictable increase in prices of services provided by PKP Energetyka on the overhead contact line. On 12 July 2019, the Company extended the claim to PLN 14,601,921.80, i.e. by the value of additional performances provided to PKP PLK S.A. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 29 November 2018, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 20,934,758.14 PLN (in words: twenty million nine hundred thirty-four thousand seven hundred fifty-eight zlotys and fourteen grosz) along with statutory interest for delay, as reimbursement for the costs of extension of the implementation of Agreement No 90/132/336/00/17000031/10/I/I of 29 November 2010 for “Designing and execution of construction works on the Kraków - Medyka - State border railway line on the Dębica - Sędziszów Małopolski section in km 133.600 - 154.900 as part of the POIiŚ 7.1-30 project "Modernization of the E30 / CE 30 railway line, Kraków - Rzeszów section, stage III” Tender 2.2”, due to circumstances within the scope of responsibility of PKP PLK S.A., both under the provisions of the Contract, as a public procurement contract, as well as general liability for damages specified in the provisions of the Civil Code. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 17 January 2019, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 12,296,388.86 PLN (in words: twelve million two hundred ninety-six thousand three hundred eighty-eight zloty and eighty-six grosz) along with statutory interest for delay, as reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0085/15/Z/I for “Continuation of upgrade work on Railway Line E59 (track and subgrade work and track infrastructure work) as part of the POIiŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section” due to circumstances within the scope of responsibility of PKP PLK S.A. On 12 July 2019, the Company extended the claim to PLN 14,601,921.80, i.e. by the value of additional performances provided to PKP PLK S.A. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 3 April 2019, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 1,320,495.25 PLN (in words: one million three hundred twenty thousand four hundred ninety-five zloty and twenty-five grosz) along with statutory interest for delay, as:

a) reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0090/15/Z/I for Construction of civil engineering structures on km 160.857; km 155.170 and km 145.650 of railway line No 271 Wrocław – Poznań, as part of the POIiŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section" – as regards the Partial Contract A – railway viaduct on km 145.650 in Mosina, due to circumstances within the scope of responsibility of PKP PLK S.A.,

b) reimbursement for the costs of additional works performed by the Company, not provided for in the Contractor's Bid for the contract in question.

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

On 2 April 2019, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 489,147.29 PLN (in words: four hundred eighty-nine thousand one hundred forty-seven zloty and twenty-nine grosz) along with statutory interest for delay, as a reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0092/15/Z/I for Construction of civil engineering structures on km 160.857; km 155.170 and km 145.650 of railway line No 271 Wrocław – Poznań, as part of the POIiŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section" – as regards the Partial Contract C – railway viaduct on km 160.857 in Poznań, due to circumstances within the scope of responsibility of PKP PLK S.A. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 13 June 2019, the Parent Company filed a suit against PKP PLK S.A. with the motion requesting security for the Parent Company's claim, the subject of which being stipulating the contents of the Parent Company's contractual obligations under agreements No. 90/132/121/00/17000031/10/I/I of 16 December 2010 on "Design and performance of construction works on the railway line Krakow – Medyka – state border on the section Dębica – Sędziszów Małopolski, in km 111,500–133,600 under the OPIE project 7.1-30 "Modernisation of the railway line E30/C-E 30, on the section Krakow–Rzeszów, Stage III" Tender 2.2 and No. 90/132/336/00/17000031/10/I/I of 29 November 2010 on "Design and performance of construction works on the railway line Krakow – Medyka – state border on the section Sędziszów Małopolski – Rzeszów Zachodni under the project "Modernisation of the railway line E3-/C-E 30, on the section Krakow – Rzeszów, stage III" Tender 2.3. Disputable circumstances in the case comprise the necessity of issuing the declaration of compliance of the fixtures or constructions with the type in compliance with the Act on Railway Transport, as well as the correctness of the design and performance of noise barriers. The amount claimed by the plaintiff is PLN 12,301,072. The case is at the early stage of proceedings and its resolution date is difficult to predict.

Proceedings concerning subsidiaries:

AB Kauno Tiltai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, of which a subsidiary, AB Kauno Tiltai, is a member, for a total amount of PLN 67,715,319 (EUR 14,989,556). Pursuant to a decision of the court, this amount was reduced to PLN 4,706,684 (EUR 1,041,878). The share of Trakcja Group in liabilities (if any) that may arise from these proceedings is 65%. The Group refrained from making any other disclosures related to this court case by invoking clause 92 of IAS 37. According to the Management Board of The Parent Entity those disclosures may reveal information to parties of court proceedings, which can be used in the ongoing proceedings against the interests of the subsidiary AB Kauno tiltai.

5.7. Related-party transactions

All related-party transactions of the Parent Company and its subsidiaries in 2019 were executed on an arm's length.

For detailed information on related-party transactions, see Note 55 to the Consolidated financial statements of Trakcja Group for 2019.

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

Total amount of the remuneration and other benefits paid to members of the Parent Company's Management Board in 2019 is presented in the table below:

Management Board of the Parent Company		Parent Company				Subsidiaries			
		Remunaration	Awards	Other benefits	Total	Remunaration	Awards	Other benefits	Total
Marcin Lewandowski	President of Management Board	1 320	320	-	**1 640**	-	-	-	**-**
Jarosław Tomaszewski	President of Management Board from 27.04.2018	-	-	960	**960**	-	-	-	**-**
Paweł Nogalski	Vice-President of the Management Board	600	126	30	**756**	258	-	-	**258**
Marek Kacprzak	Vice-President of the Management Board from 30.09.2019	450	-	678	**1 128**	-	-	-	**-**
Sobczyk Maciej	Vice-President of the Management Board from 30.09.2019	450	-	686	**1 136**	-	-	-	**-**
Arkadiusz Arciszewski	Vice-President of the Management Board from 10.10.2019	158	-	-	**158**	-	-	-	**-**
Robert Sobków	Member of Management Board from 04.12.2019	22	-	-	**22**	-	-	-	**-**
Adam Stolarz	Member of Management Board from 04.12.2019	22	-	-	**22**	-	-	-	**-**
Rusevicius Aldas	Vice-President of the Management Board	120	-	-	**120**	483	-	-	**483**
Total		**3 142**	**446**	**2 354**	**5 942**	**741**	**-**	**-**	**741**

Remuneration and other benefits paid to members of the Parent Company's Supervisory Board in 2019 is presented in the table below:

Supervisory Board of the Parent Company	Parent Company				Subsidiaries			
	Remunaration	Awards	Other benefits	Total	Remunaration	Awards	Other benefits	Total
Dominik Radziwiłł	240	-	-	**240**	280	-	-	280
Michał Hulbój	132	-	-	**132**	-	-	-	-
Wojciech Napiórkowski	168	-	-	**168**	-	-	-	-
Łukasz Rozdeiczer-Kryszkowski	132	-	-	**132**	-	-	-	-
Miquel Llevat Vallespinosa	132	-	-	**132**	258	-	-	258
Jorge Miarnau Monserrat	96	-	-	**96**	-	-	-	-
Fernando Perea Samarra	132	-	-	**132**	-	-	-	-
Total	**1 032**	**-**	**-**	**1 032**	**538**	**-**	**-**	**538**

5.9. Agreements concluded between the Parent Company and managers

The Parent Company and the Management Board members concluded:

- Management contracts with the option of termination by giving 12 months' notice while retaining the right to remuneration or
- employment contracts under which they are entitled to compensation equal to 6 times their basic salary, and non-competition agreements under which the employee will be entitled to compensation equal to 12 times their monthly salary, payable in equal monthly instalments.

As at 31 December 2019, there were no liabilities related to pension or similar benefits for former members of the management, supervisory or administrative bodies, and no liabilities were incurred in connection with such pensions.

5.10. Material events subsequent to the balance sheet date

Other	CR
10.01.2020 The Company announced the dates of publication of periodic reports in 2020.	1/2020
14.01.2020 The Company announced the resolutions undertaken by the Company's Extraordinary Shareholders Meeting, which was held on 14 January 2020.	2/2020
14.01.2020 The Company presented a list of shareholders holding at least 5% of the total number of votes in the Extraordinary Shareholders Meeting, which was held on 14 January 2020 in Warsaw.	3/2020
10.02.2020 The Company informed about the registration of a conditional capital increase by the District Court for the Capital City of Warsaw in Warsaw, as well as changes in the Company's Statute.	4/2020
24.02.2020 The Management Board of Trakcja PRKiI S.A. informed about the change of the Company's seat address.	5/2020
27.02.2020 The Company announced the initial estimated financial results for the 12 months ended on 31 December 2019.	6/2020
17.03.2020 Pursuant to the recommendations of the Polish Financial Supervision Authority (KNF) and own analysis, the Management Board of Trakcja PRKiI S.A. published information about the potential effect of the spread of the SARS CoV-2 coronavirus on the financial situation of the Issuer and their group of companies.	7/2020
18.03.2020 The Company decided to create a write-down to investments in subsidiaries in the Company's individual balance sheet, in the amount of PLN 114,187 thousand, and a write-down to goodwill in the consolidated balance sheet of the Trakcja Group, in the amount of PLN 138,182 thousand.	8/2020
06.04.2020 The Company informed that in account of the COVID-19 epidemic it has taken action to eliminate the negative effects of the current situation on the Company's business and results.	9/2020

5.11. Major R&D achievements

In 2019, as in previous years, Trakcja PRKiI placed great emphasis on efforts related to Occupational Health and Safety at the construction sites. Observance of the basic safety rules, internal inspections as well as the reminders and educational information distributed contributed to a reduction in accidents. It is also important to note the special telephone application implemented on the WEBCON platform for monitoring threats on construction sites. Owing to the measures taken, the company has won a number of awards, including, among others:

1. Safe Work Leader's Silver Card,

2. First place in the "Build Safely" competition held by the Labour Inspectorate,

3. Distinction in the "Build Safely 2019" competition.

5.12. Information on the statutory auditor

Pursuant to a resolution adopted by the Supervisory Board of Trakcja PRKiI, the entity authorised to audit financial statements of the Group and the Parent Company is BDO spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw at ul. Postępu 12.

In 28 August 2019, the Company and BDO spółka z ograniczoną odpowiedzialnością sp. k. entered into an agreement for:

- review of the semi-annual separate and consolidated financial statements prepared as at 30 June 2019 in accordance with the International Accounting Standards;
- audit of the annual separate and consolidated financial statements prepared as at 31 December 2019, in accordance with the International Accounting Standards;
- review of the semi-annual separate and consolidated financial statements prepared as at 30 June 2020 in accordance with the International Accounting Standards;
- audit of the annual separate and consolidated financial statements prepared as at 31 December 2020, in accordance with the International Accounting Standards.

The agreement was concluded for the period of execution of its subject matter.

Remuneration of the statutory auditor for the services provided to the Company is presented in the table below:

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
On account of agreement for financial statement audit	140	168
On account of agreement for financial statement review	97	76
Other certified services	-	21
Total	**237**	**265**

Remuneration of the statutory auditor for the services provided to the Group is presented in the table below:

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
On account of agreement for financial statement audit	344	239
On account of agreement for financial statement review	135	76
On account of other agreements	10	21
Total	**489**	**336**

Remuneration for the audit of accounts of selected Trakcja Group companies is paid under separate agreements between the auditor and each of the Trakcja Group companies.

6. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS

6.1. Code of corporate governance applicable to the Issuer and its availability to the general public

In 2019, Trakcja PRKiI was subject to the corporate governance rules stipulated in the "Code of Best Practice for WSE Listed Companies 2016" adopted by the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015.

The document is available at the WSE's premises and on its website dedicated to corporate governance (http://corp-gov.gpw.pl), and on the Company's website, in the "Investor relations/Corporate governance" tab.

6.2. Degree of the Issuer's non-compliance with the corporate governance rules set out in the "Code of Best Practice for WSE Listed Companies 2016" pursuant to resolution No 1309/2015, applicable as of 1 January 2016, specification of the rules not complied with, and reasons for the non-compliance

The Company undertook to comply with the corporate governance recommendations and rules laid down in the "Best Practice for WSE Listed Companies 2016", except for the following recommendations and rules:

1. *Recommendations and rules set out in Section I of the Code of Best Practice:*

I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:

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

Explanation:

The Company does not publish any strategy as the situation on the markets where it operates is too dynamic for the strategy to stay up-to-date.

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

Explanation:

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

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

Explanation:

The Company has not implemented a formalised diversity policy with respect to the Company's governing bodies and key managers due to the specific nature of the markets in which it operates, in particular due to the limited number of key managers that can be recruited from the market. Key personnel decisions with regard to the Company's authorities are made by the General Meeting and the Supervisory Board, guided by the qualifications, skills and professionalism of the candidate for a given position and his or her professional experience. Although there are no non-standard rules for their selection, the Company seeks, as far as possible, to recruit people with relevant competencies, regardless of their gender, age, education or professional experience. These elements are not factors that affect the Company's decisions concerning employment. The Company hires key employees taking into account their expertise and experience in the industry, depending on the needs, taking into account the requirements and specificity of a given position. Due to the specific nature of its business, qualifications become a key factor, regardless of non-substantive criteria, and the Company believes that in such circumstances it will not always be possible to maintain diversity.

In the Company's opinion, such an approach ensures proper selection of the company's authorities and its key managers.

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

Explanation:

Due to its ownership structure, the Company does not broadcast General Meetings in the form of audio or video transmissions.

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

Explanation:

Due to its ownership structure, the Company does not broadcast General Meetings in the form of audio or video transmissions and does not make them available on its website.

2. Recommendations and rules set out in Section IV of the Code of Best Practice:

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

1) real-time broadcast of the general meeting,

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

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

Explanation:

Due to the Company’s shareholding structure and the lack of the required technical infrastructure, the Company does not broadcast the general meetings and does not enable the real-time bilateral communication using electronic communication means.

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

Explanation:

Due to its shareholding structure, the Company does not broadcast General Meetings in real time.

3. Recommendations and rules set out in Section VI of the Code of Best Practice:

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

Explanation:

The Company will draft the document in question and present it for adoption at the next General Meeting.

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

Explanation:

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

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

Explanation:

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

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

Explanation:

The Company is in the process of preparing the Remuneration Policy that will provide mechanisms for linking components of the Management Board members' remuneration with the Company's financial standing. The Company will draft this document for adoption at the next General Meeting in 2020.

VI.Z.4. In this directors' report, the company should report on the remuneration policy including at least the following:

1) general information about the company's remuneration system;

2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;

3) information about non-financial remuneration components due to each management board member and key manager;

4) indication of significant changes, which were introduced in the remuneration policy in the last financial year, or information about their lack,

5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

Explanation:

The Company does not report on the remuneration policy in its directors' report, but preparations are being made so that in the future such a report forms part of the directors' report. The Company will draft the Remuneration Policy and present it for adoption at the next General Meeting of Shareholders in 2020, and the first report on this matter will be included in the Directors' Report on the activities in 2020.

6.3. Manner of operation and key powers of the General Meeting; description of shareholders' rights and the manner of their exercise

The Company's General Meeting (GM) operates on the basis of provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the General Meeting. The GM shall be convened by posting a relevant notice on the Company's website and in the manner prescribed for publication of current reports, in accordance with the provisions of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies. Resolutions of the GM are passed by an absolute majority of the votes cast unless the Commercial Companies Code or the Articles of Association provide otherwise; however, resolutions on:

1) liquidation of the Company;

2) increasing the Company's share capital, cancelation of the Company's shares and reducing the Company's share capital;

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

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

5) waiving the Shareholders' pre-emptive rights to new shares;

6) selling the business or its organised part;

7) recalling or suspending the Management Board members or the Supervisory Board members;

8) merger, demerger and transformation of the Company;

9) conversion of shares back into certificated form;

10) amending the Articles of Association

must be adopted by a 2/3 (two thirds) majority of the votes cast, when required by law. Moreover, the Company's Articles of Association provide for a qualified majority of 80% of votes present at the General Meeting "in favour" of adopting a resolution on amending Articles 13.1, 13.7, 16.3 and 16.7 of the Articles of Association and on the cancellation of shares.

According to the Articles of Association, the General Meeting does not have to grant consent to the purchase, lease, disposal or any other form of transfer of ownership of real property, right of perpetual usufruct or interest in real property by the Company.

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

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

6.4. Rules governing appointment and removal of the management and supervisory staff, composition and operating principles of the Company's management and supervisory bodies and their committees

6.4.1. Management Board

As at the date of issue of this statement, the composition of the Company's Management Board was as follows:

- Marcin Lewandowski - President of the Management Board;
- Paweł Nogalski - Vice-President of the Management Board;
- Arkadiusz Arciszewski - Vice-President of the Management Board;

- Aldas Rusevičius - Vice-President of the Management Board;
- Robert Sobków - Member of the Management Board;
- Adam Stolarz - Member of the Management Board.

On 27 September 2019, Mr Marek Kacprzak and Mr Maciej Sobczyk tendered their resignations as a Management Board Members, with effect as of 30 September 2019.

On October 10, 2019 the Company' Supervisory Board adopted a resolution naming Mr. Arkadiusz Arciszewski as Vice-President of the Management Board with effect from October 10, 2019.

On December 4, 2019 the Company's shareholder, Agencja Rozwoju Przemysłu S.A., declared in writing that Mr. Adam Stolarz and Mr. Robert Sobków were named as members of the Management Board.

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

Rules governing the appointment and removal of the Company's management personnel and such personnel's powers, particularly the power to make decisions to issue or buy back shares:

The Company's Management Board operates in accordance with the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Management Board. Pursuant to the Company's Articles of Association, the Management Board consists of no more than 10 members, appointed and dismissed as follows, subject to Articles 18.6 and 18.7 below: (i) up to eight members of the Management Board are appointed and dismissed by the Supervisory Board; (ii) one member of the Management Board responsible for internal audit is appointed and dismissed by Agencja Rozwoju Przemysłu S.A. by way of a written representation submitted to the Company; (iii) one member of the Management Board responsible for key customers is appointed and dismissed by Agencja Rozwoju Przemysłu S.A. by way of a written representation submitted to the Company. In the event that due to: (i) amendments to Articles 13.1 and 13.4 of the Articles of Association, (ii) amendments to the relevant provisions of law, (iii) appointment of the Supervisory Board in keeping with Article 385 § 5 and (or) 6 of the Commercial Companies Code, the key shareholder (COMSA) is not able to appoint such a number of the Supervisory Board members as would form the majority of its members, COMSA shall have the right to appoint and recall the Management Board members in the number corresponding to 50% of all the Management Board members (rounded down to the nearest integral number) plus one Management Board member. If the number of Supervisory Board members appointed by COMSA ceases to form the majority of the Supervisory Board members, a resolution recalling or suspending a member or members of the Management Board appointed by COMSA is adopted by the General Meeting by a 2/3 of the votes cast.

Members of the Management Board are appointed for a joint three-year term of office. In accordance with the Articles of Association, the Management Board manages the Company's business and represents the Company before third parties. The Supervisory Board (in cooperation with the Supervisory Board's Remuneration Committee) sets and changes remunerations and determines other terms and conditions of employment for the Management Board members. In accordance with the Articles of Association, the Management Board manages the Company's business and represents the Company before third parties. All matters not reserved for the General Meeting or the Supervisory Board fall within the scope of powers and responsibilities of the Management Board. Management Board resolutions are passed with an absolute majority of votes cast by Management Board members present at the meeting or participating in the vote. In the case of a voting tie, the President of the Management Board has the casting vote. Declarations of will on behalf of the Company may be made and documents may be signed for the Company by two Management Board members acting jointly or one Management Board member acting jointly with a commercial proxy. A proxy is authorised, pursuant to a resolution adopted by the Management Board, to take certain actions on behalf of the Company (to the extent permitted by the authorisation granted). The rules for making decisions on issuing or redeeming shares (increasing or decreasing the share capital) are reserved for the General Meeting which adopts resolutions on these matters by a majority of 2/3 of votes cast (the Articles of Association do not authorise the Management Board to make decision on issuing or redeeming shares).

6.4.2. Commercial proxies

During the last financial year, the power of commercial proxy granted to Mr Radosław Zając was revoked. Moreover, Mr Adam Stolarz and Mr Robert Sobków were granted the power of commercial proxy which was subsequently revoked.

As at the date of issue of this report, the Company has one Commercial proxy, Ms Elżbieta Okuła. The said commercial proxy may make representations on behalf of the Company jointly with one Management Board member or other Commercial proxy.

Commercial proxies operate in accordance with the Civil Code, Commercial Companies Code, the Company's Articles of Association and internal Rules of Procedure of the Company.

6.4.3. Supervisory Board

As at the date of issue of this statement, the composition of the Company's Supervisory Board was as follows:

- Dominik Radziwiłł - Chairman of the Supervisory Board;
- Jorge Miarnau Montserrat - Deputy Chairman of the Supervisory Board;
- Michał Hulbój - Deputy Chairman of the Supervisory Board (Independent Member);
- Klaudia Budzisz - Member of the Supervisory Board;
- Krzysztof Tenerowicz - Member of the Supervisory Board (Independent Member);
- Miquel Llevat Vallespinosa - Member of the Supervisory Board;
- Fernando Perea Samarra - Member of the Supervisory Board;

On December 4, 2019 the Company was notified of resignation by Mr. Wojciech Napiórkowski from the position on the Company's Supervisory Board as at December 4, 2019 and the shareholder, Spółka Agencja Rozwoju Przemysłu S.A., declared in writing that Ms. Klaudia Budzisz was named as a member of the Company's Supervisory Board.

On December 20, 2019 the Company was notified of resignation by Mr. Łukasz Rozdeiczer-Kryszkowski from the position on the Company's Supervisory Board as at December 20, 2019 and the shareholder, Spółka Agencja Rozwoju Przemysłu S.A., declared in writing that Mr. Krzysztof Tenerowicz was named as a member of the Company's Supervisory Board.

After the balance sheet date there have been no changes to the composition of the Supervisory Board.

The Company's Supervisory Board operates in accordance with the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Supervisory Board. At present, the Supervisory Board is composed of 7 members. The Supervisory Board is currently composed of the Chairman, two Deputy Chairmen and the remaining members. Supervisory Board members are appointed for a joint term of three years.

Members of the Supervisory Board are appointed and dismissed from office by the General Meeting, with the proviso that:

- shareholder (COMSA S.A.) is authorised to appoint and recall four Supervisory Board members by way of submitting a written statement in that respect to the Company;

- akcjonariusz Agencja Rozwoju Przemysłu S.A. jest uprawniony do powoływania i odwoływania dwóch członków Rady Nadzorczej przez pisemne oświadczenia złożone Spółce.

Where the number of the Supervisory Board members is higher or lower than seven due to changes in Article 13.1 of the Articles of Association or relevant provisions of law, COMSA shall have the right to appoint and recall the Supervisory Board members in the number corresponding to 50% of all the Supervisory Board members (rounded down to the nearest integral number) plus one Supervisory Board member. The right held by COMSA referred to in the previous sentence expires on 1 January 2022, subject to the circumstances indicated in Article 29(4) of the Articles of Association.

At least one member of the Supervisory Board, including at least one member appointed by the General Meeting, shall meet the following independence criteria:

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

The Supervisory Board whose members do not include independent members of the Supervisory Board referred to in Article 13.5 of the Articles of Association, is capable to adopt valid resolutions.

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

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

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

Members of the Supervisory Board are appointed for a joint term of office. The Supervisory Board or its individual members appointed by the General Meeting may be recalled by a resolution adopted by the General Meeting before the expiry of the Supervisory Board's term of office. If a Supervisory Board member is removed from office during his term of office and another person is appointed to replace him, the term of office of the newly appointed member ends upon expiry of the term of office of the entire Supervisory Board. The same also applies when the entire Supervisory Board is recalled during its term of office and new Supervisory Board is appointed and also when new members are additionally appointed to the Supervisory Board during its term of office. The Chairman and Vice Chairman of the Supervisory Board are appointed by the Supervisory Board from amongst its members.

Supervisory Board is chaired by the Chairman of the Supervisory Board or, in the event of his absence, by the Deputy Chairman of the Supervisory Board. Supervisory Board Members may be re-appointed for subsequent terms of office. The Supervisory Board members act in a personal capacity. The Supervisory Board may adopt its resolutions by casting a vote in writing or using means of remote communication, without holding a meeting. The Supervisory Board’s meetings are convened at least four times a year by its Chairman, who also chairs the meetings. In the absence of the Chairman, meetings are chaired by one of the Deputy Chairmen. The Chairman convenes the Supervisory Board’s meetings also at a written request of the Company’s Management Board or any of the Supervisory Board members. The Chairman appoints the Secretary of the Supervisory Board. A Supervisory Board’s resolution may be adopted at a meeting, provided that all the Supervisory Board members have been invited in writing to the meeting (such invitations should be delivered to the Supervisory Board members at least seven days before the meeting) and that at least half of them are present at the meeting, including the Chairman and at least one of the Deputy Chairmen. The Supervisory Board's meeting may be valid also without being officially convened, if all the Supervisory Board members are present at the meeting and none of them objects to the holding of such a meeting or any issue included in the agenda. The Supervisory Board may adopt resolutions by written ballot or with the use of means of remote communication, subject to Article 388.4 of the Commercial Companies Code. In such an event, a draft of the resolution should be presented to all members of the Supervisory Board by its Chairman, and in his or her absence by one of the Deputy Chairmen.

The powers and responsibilities of the Supervisory Board include ongoing supervision of the Company’s operations. The Supervisory Board’s resolutions are required in matters reserved for the Supervisory Board in the Commercial Companies Code and in Article 16 and Article 16A of the Company's Articles of Association. The Supervisory Board appoints a statutory auditor of the Company. The Supervisory Board’s resolutions are passed with a simple majority of votes cast. In the event of a voting tie, the Chairperson has the casting vote.

On 25 July 2013, the Company’s Supervisory Board appointed from among its members the Audit Committee. In 2019, the committee held four meetings, and was composed of Wojciech Napiórkowski, Fernando Perea Samarra and Łukasz Rozdeiczer-Kryszkowski. At present, the committee has the following members:

- Mr Krzysztof Tenerowicz (Chairman of the Audit Committee and independent member of the Supervisory Board) – has knowledge and skills in accounting or auditing financial statements due to having obtained a PhD in finance from the Cracow University of Economics. As part of his professional work, he served, among others, as Member of the Management Board for Financial Affairs and Director General at Radio Kraków S. A., where he supervised the accounting department.

- Mr Michał Hulbój (Member of the Audit Committee and independent member of the Supervisory Board) – has knowledge and skills in accounting or auditing financial statements – obtained a positive result of two exams in the CFA program (the CFA program includes the knowledge necessary to make investment decisions, but also knowledge and skills in the field of International Accounting Standards (IFRS)). He gained his skills and professional experience in the field of, among others, accounting and financial statements as a participant of a managerial training at Bank Millennium, and subsequently as a stock market at Millennium Dom Maklerski, PTE PZU and AIG PTE. In the course of his professional work he held functions in the area of accounting, analysis of financial statements. In the 2008-2010, he worked as a portfolio manager at PTE PZU. At the end of 2010, he was appointed director of the Stock Products Management Team in Skarbiec TFI. In 2012, he served as Director of the Analysis Department at Erste Securities Polska.

- Mr Fernando Perea Samarra (Member of the Audit Committee) – he has knowledge and skills in the industry in which the Company operates, as for over a dozen years he has served as a manager of companies in the railway construction and construction industry: design and planning of works and construction and maintenance of railway infrastructure. In 2009-2011 was a Partner at Adigo – M&A Advisors, S.L. (Barcelona, Spain). Since 2011, he has been the CFO of Comsa Corporación (the major railway and infrastructure companies in Spain). From October 2003 to March 2007 he served on the Management Boards of Emte S.A., Tribugest, S.A., Agbar USA, PLC and Lydec Casablanca. Mr Perea Samarra represents COMSA as Chief Executive Officer in the following companies: Iconus,S.L. (since July 2011); Concesionaria Barcelonesa, S.L. (since February 2012) and Corporación Cld Servicios Urbanos De Tratamiento De Residuos, S.L. (since February 2012). In addition, Fernando Perea Samarra is a member of Management Boards of the following companies: Comsa Emte Polska sp. z o.o. (since 2012), Comsa Emte S.A. de C.V., México (since 2013) and Comsa Emte Mex (since 2012). In addition, he has knowledge and skills in accounting or auditing as he holds a degree in economics (University of Barcelona) and is a certified public accountant (Spanish Official Registry of Auditors).

Remuneration Committee

The Supervisory Board also appointed from among its member the Remuneration Committee as an advisory body for determining the amounts and principles of remuneration for the Company's Management Board members. Currently, The Remuneration Committee members are as follows: Miquel Llevat Vallespinosa (Chairman), Klaudia Budzisz (member) oraz Pan Krzysztof Tenerowicz (member).

Detailed rules governing the operation of the Supervisory Board are defined in the Rules of Procedure for the Supervisory Board, adopted by the General Meeting.

6.5. Description of key features of internal control and risk management systems used in 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 by the European Commission, hereinafter referred to as the "IASs", referred to in Article 2(3) of the Accounting Act of 29 September 1994 (as amended). Any issues not regulated in the IASs are governed by the provisions of the Accounting Act and the executive regulations issued on its basis.

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 – Chief Financial Officer.

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

Consolidated financial statements are drafted on the basis of uniform consolidation packages prepared electronically by individual Group companies. Data is consolidated by the Stock Exchange Reporting Department under the supervision of the Vice-President of the Management Board – Chief Financial Officer.

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

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

6.6. Shareholders holding, directly or indirectly, major holdings of shares

Zgodnie z wiedzą Zarządu Emitenta, na podstawie otrzymanych zawiadomień w trybie art. 69 ustawy o ofercie publicznej i warunkach wprowadzania instrumentów finansowych do zorganizowanego systemu obrotu oraz o spółkach publicznych, stan Akcjonariuszy posiadających bezpośrednio, bądź przez podmioty zależne, co najmniej 5% ogólnej liczby głosów na Walnym Zgromadzeniu Jednostki dominującej na dzień przekazania ostatniego raportu okresowego, tj. na 28.11.2019 r. wynosił:

Shareholders	Number of shares	% in share capital	Number of votes	% in votes at GSM
COMSA S.A.	16 156 193	31,43%	16 156 193	31,43%
OFE PZU "Złota Jesień"*	5 732 694	11,15%	5 732 694	11,15%

*represented by the Powszechne Towarzystwo Emerytalne PZU S.A.

Since the date of submission of the last interim report, i.e. 28 November 2019, to the date of publication of this report, the Parent Company received the following notifications under Article 69 of the Act on Public Offering:

On 6 November 2019, the Parent Company received a notification from Powszechne Towarzystwo Emerytalne PZU S.A. acting on behalf of Otwarty Fundusz Emerytalny PZU “Złota Jesień” (“OFE PZU”), on a decrease in the shareholding below 10% of the total vote at the Parent Company, as announced by the Parent Company in current report No 67/2019. OFE PZU acquired 2,600,000 rights to series B shares which were introduced to trading on the stock exchange on 6 November 2019. On 13 November 2019, the Parent Company received a correction to the aforesaid notification, disclosing an excess of the threshold of 15% of the total vote in the Parent Company, as announced in current report No 70/2019.

On 7 November 2019, the Parent Company received a notification from Agencja Rozwoju Przemysłu S.A. ("ARP") on acquiring 3,589,080 rights to series B shares that were introduced to trading on the exchange market on 6 November 2019, which had an economic effect similar to exceeding the threshold of 5% of the total vote in the Parent Company, as announced by the Parent Company in current report No 68/2019.

On 4 December 2019, the Parent Company received a notification from Powszechne Towarzystwo Emerytalne PZU S.A. acting on behalf of Otwarty Fundusz Emerytalny PZU “Złota Jesień” (“OFE PZU”), in connection with the registration of the increase of the Parent Company's share capital, on a decrease in OFE PZU’s shareholding below 10% of the total vote at the Parent Company, as announced by the Parent Company in current report No 74/2019.

On 4 December 2019, the Parent Company received a notification from Agencja Rozwoju Przemysłu S.A. (“ARP”), in connection with the registration of the increase of the Parent Company's share capital, on an increase in ARP’s shareholding above the threshold of 15% of the total vote at the Parent Company, as announced by the Parent Company in current report No 76/2019.

On 4 December 2019, the Parent Company received a notification from COMSA S.A.U. (“COMSA”), in connection with the registration of the increase of the Parent Company's share capital, on an increase in COMSA’s shareholding above the threshold of 32% of the total vote at the Parent Company, as announced by the Parent Company in current report No 78/2019.

Therefore, to the best knowledge of the Parent Company's Management Board and in accordance with the aforesaid notifications, shareholders that hold – directly or through subsidiaries – at least 5% of the total number of votes at the Company's General Meeting ("GM") as at the date of submission hereof were as follows:

Shareholders	Number of shares	% in share capital	Number of votes	% in votes at GSM
COMSA S.A.	28 399 145	32,85%	28 399 145	32,85%
Agencja Rozwoju Przemysłu	16 117 647	18,64%	16 117 647	18,64%
OFE PZU "Złota Jesień"*	8 332 694	9,64%	8 332 694	9,64%

*represented by the Powszechne Towarzystwo Emerytalne PZU S.A.

6.7. Holders of any securities conferring special control powers, and description of those powers

Apart from the rights arising from the Company's Articles of Association, there are no securities conferring special control rights.

6.8. Restrictions on voting rights

Apart from the limitations following from the Company's articles of association and commonly applicable laws, there are no limitations on the exercise of voting rights attached to the Company shares.

6.9. Restrictions on the transferability of Trakcja PRKiI's securities

Pursuant to the share lock-up agreement signed on 8 October 2019 between COMSA S.A.U. (the "Shareholder"), mBank S.A. ("mBank") and Santander Bank Polska S.A. Santander Bank Polska S.A. – Santander Dom Maklerski (the "Brokerage House") (the "Share Lock-up Agreement"):

1. The shareholder, without mBank's consent, may not: - sell any shares in the Company in the period ending on 27 December 2020; - hold shares representing less than 25% of the Company's share capital in the period beginning on 28 December 2020 and ending on 31 December 2021, unless this results from: a public tender offer; exercise by pledgees of their rights under pledges over the Company shares held by the Shareholder established or to be established under an agreement executed between the Shareholder and the financial institutions providing financing to the Shareholder of 28 December 2016, or further increase of the Company's share capital following the increase of the share capital approved by the Extraordinary General Meeting on 27 September 2019.

2. The Brokerage House locked up the existing shares in the Company held by the Shareholder and is required to lock up further shares in the Company after their issue and delivery to the Shareholder. The Share Lock-up Agreement was concluded for a definite period until 1 January 2022 or until the termination of the Common Terms and Conditions Agreement, as announced by the Issuer in current report No 51/2019 of 27 September 2019, whichever is the earlier.

Moreover, the Company's Management Board was notified by the Shareholder of the execution of the agreement concerning the pre-emptive right to acquire the Company's shares (the "Pre-emptive right") by the Shareholder with Agencja Rozwoju Przemysłu S.A. (the "Investor") on 10 October 2019. Under the Pre-emptive right, the Shareholder is obligated, if the Shareholder decides to sell at least 5% of the Company's share capital, including as a result of receiving an offer to purchase such a block of shares from another entity, to notify the Investor of such transaction allowing the Investor to purchase the shares in question on the terms indicated by the Shareholder (the pre-emptive right). Should the Investor not exercise the pre-emptive right, the Shareholder may dispose of the said block of shares on the same or better terms within the time limit specified in the Pre-emptive Right. The Pre-emptive right is valid until 31 December 2022 or until the date when the Investor or Shareholder ceases to hold, directly or indirectly, at least 5% of the Company shares.

Apart from the above, and apart from the limitations following from commonly applicable laws and the Company's articles of association, there are no restrictions on the transferability of the Company's securities.

6.10. Rules for amending the Articles of Association of Trakcja PRKiI

Any amendments to the Company's Articles of Association are made in accordance with the rules set forth in the commonly applicable provisions of law subject to the exceptions indicated in the Articles of Association. In accordance with the Articles of Association, resolutions of the General Meeting concerning amendments to Articles 13.1, 13.7, 16.3 and 16.7 of the Articles of Association (related to the composition of the Supervisory Board and the procedure for the adoption of certain resolutions) require at least 80% of the votes present at the General Meeting cast in favour of such a resolution to be valid. Resolutions of the General Meeting concerning cancellation of shares require at least 80% of votes present at the General Meeting cast in favour of such a resolution to be valid. The purchase, lease, disposal or any other form of transfer of ownership of real property, right of perpetual usufruct or interest in real property by the Company do not require consent of the General Meeting.

6.11. Policy for selection of an auditing firm to perform audits, and policy for the provision of non-audit services by the audit firm, its affiliates and members of its network

Pursuant to the requirements of the Act on Statutory Auditors, Audit Firms, and Public Oversight of 11 May 2017 (the "Act"), both policies have been adopted and implemented in the Company. When selecting the audit firm and applying the policy for the provision of non-audit services by the audit firm, its affiliates and members of its network, the Company follows in particular the provisions of the Act and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (the "Regulation"), the Company's Articles of Association, internal regulations of the Company and generally applicable laws.

The Management Board is responsible for the execution of the policy for selection of the audit firm, and the audit firm is selected by the Supervisory Board, guided by a recommendation provided by the Audit Committee which complied with the applicable requirements. The selection is made after completion of a procedure aimed at ensuring the selection of an independent and impartial audit firm and after analysis of the work performed by that firm at the Company and going beyond the audit of the financial statements in order to avoid conflicts of interest. The procedure aimed at ensuring the selection of an audit firm should be commenced and conducted within a period allowing the statutory auditor to participate in the stock-taking of the Company's assets.

In addition to the above principles (which are common to both policies), when choosing an audit firm to provide permitted non-audit services, it must be verified whether the additional service is included in the catalogue of prohibited services or whether or not the Act excludes a particular service from the catalogue of prohibited services. Moreover, the provisions of Articles 4 and 5 of the Regulation are taken into account when determining the remuneration for permitted non-audit services. The selection of an audit firm to provide permitted non-audit services is made by the Management Board acting upon the recommendation of the Audit Committee that expresses its consent to the provision of additional permitted non-audit services.

Therefore, the Company has assessed the independence of this audit firm and gave its consent to the provision of these services.

6.12. Description of the diversity policy applied to the Issuer's administrative, management and supervisory bodies

The Company has not adopted a separate document on diversity policy. Despite that, the Company endeavours to comply with the diversity principles, which is reflected in the share of women employed as white-collar employees and the share of women employed as managers. The Company follows the diversity principles any time it has an opportunity to do so. This is reflected in the composition of the Supervisory Board. The persons appointed satisfy the requirements of versatility and diversity, in particular, as far as their education, age and professional experience are concerned. High qualifications and professional preparation to perform a given function are the key factors in determining whether a person may take up a particular position.

The Company seeks to apply the principles of diversity to the Company's governing bodies and key managers. However, due to the specific nature of the markets in which it operates, in particular due to the limited number of key managers that can be recruited from the market, these principles play a limited role.

6.13. Information on the sponsorship policy

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

Warsaw, 21 April 2020

Marcin Lewandowski	Paweł Nogalski
President of the Management Board	Vice-President of the Management Board
Arkadiusz Arciszewski	Aldas Rusevičius
Vice-President of the Management Board	Vice-President of the Management Board
Robert Sobków	Adam Stolarz
Member of the Management Board	Member of the Management Board

REPRESENTATION BY THE MANAGEMENT BOARD ON COMPLIANCE OF THE ANNUAL FINANCIAL STATEMENTS AND THE DIRECTORS' REPORT ON THE OPERATIONS OF TRAKCJA PRKiI S.A.

To the best of our knowledge, the financial statements of Trakcja PRKiI S.A. for the period from 1 January 2019 to 31 December 2019 and the comparative data have been prepared in compliance with the applicable accounting standards and give a clear, true and fair view of the assets, financial position and financial performance of Trakcja PRKiI S.A. The Directors' Report on the operations of Trakcja PRKiI S.A. in 2019 gives a fair view of the development, achievements and position of Trakcja PRKiI S.A., and includes a description of key risks and threats.

Marcin Lewandowski President of the Management Board	Paweł Nogalski Vice-President of the Management Board
Arkadiusz Arciszewski Vice-President of the Management Board	Aldas Rusevičius Vice-President of the Management Board
Robert Sobków Member of the Management Board	Adam Stolarz Member of the Management Board

Warsaw, 21 April 2020

REPRESENTATION BY THE MANAGEMENT BOARD ON COMPLIANCE OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS AND THE DIRECTORS' REPORT ON THE OPERATIONS OF TRAKCJA CAPITAL GROUP

To the best of our knowledge, the consolidated financial statements of Trakcja Capital Group for the period from 1 January 2019 to 31 December 2019 and the comparative data have been prepared in compliance with the applicable accounting standards and give a clear, true and fair view of the assets, financial position and financial performance of Trakcja Capital Group. The Directors' Report on the operations of Trakcja Capital Group in 2019 gives a fair view of the development, achievements and position of Trakcja Capital Group, and includes a description of key risks and threats.

Marcin Lewandowski President of the Management Board	Paweł Nogalski Vice-President of the Management Board
Arkadiusz Arciszewski Vice-President of the Management Board	Aldas Rusevičius Vice-President of the Management Board
Robert Sobków Member of the Management Board	Adam Stolarz Member of the Management Board

Warsaw, 21 April 2020

INFORMATION FROM THE MANAGEMENT BOARD PREPARED ON THE BASIS OF THE REPRESENTATION OF THE SUPERVISORY BOARD ON THE QUALIFIED AUDITOR OF FINANCIAL STATEMENTS

The Management Board of Trakcja PRKiI S.A., on the basis of the representation of the Supervisory Board, informs that the entity authorised to audit financial statements, auditing the annual separate and consolidated financial statements of, respectively: the Parent Company and Trakcja Group for the 12-month period ended 31 December 2019 – BDO Spółka z ograniczoną odpowiedzialnością Sp. k. – has been selected in accordance with the provisions of law, and that:

- the audit firm and the members of the audit team met the conditions necessary to issue an impartial and independent audit report on the annual financial statements in accordance with applicable laws, professional standards, and principles of professional ethics,

- the Company complies with the applicable laws governing the rotation of audit firms and lead auditors as well as with the mandatory cooling-off periods,

- the Company has in place a policy governing the selection of audit firms and a policy on the provision of additional non-audit services by audit firms, their related parties or members of their networks to the Issuer, including services that are conditionally exempt from the prohibition on the provision of services by an audit firm.

Marcin Lewandowski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Arkadiusz Arciszewski

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Robert Sobków

Member of the Management Board

Adam Stolarz

Member of the Management Board

Warsaw, 21 April 2020

TRAKCJA
CAPITAL GROUP

NON-FINANCIAL REPORT OF TRAKCJA GROUP AND TRAKCJA PRKiI S.A.

FOR 2019

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

Table of Contents

Introduction

This statement (hereinafter referred to as the "Statement" or "Report") has been prepared in accordance with Article 49b of the Accounting Act of 29 September 1994, as amended, which implements the guidelines of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 on disclosure of non-financial and diversity information. It includes non-financial information on Trakcja Group for the period from 1 January 2019 to 31 December 2019 and constitutes a separate part of the Directors' Report on the operations of Trakcja Capital Group and Trakcja PRKiI S.A. in 2019. This statement is the third non-financial report published by Trakcja Group (hereinafter referred to as the "Group"). The Group has identified key non-financial performance indicators based on the Sustainability Reporting Guidelines issued by the Global Reporting Initiative.

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

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

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

1. management of natural resources,
2. operating practices,
3. labour practices,
4. customer relations,
5. social commitment and development of local community.

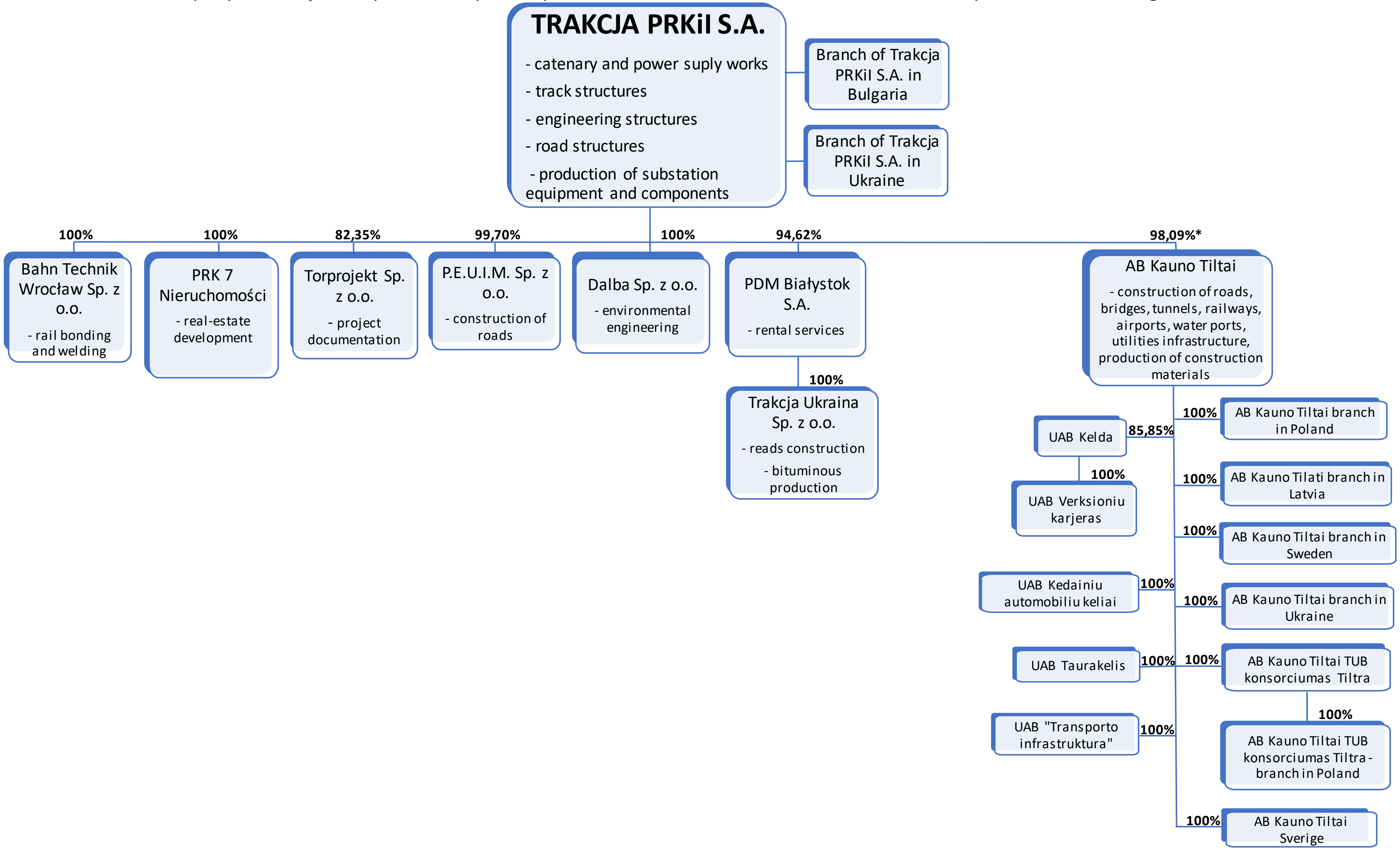
The CSR strategy was created by several key managers of the Parent Company, who are responsible, in particular, for strategy, stock exchange reporting, communication and human resources. It has been decided that essential aspects of the strategy should respond to the needs reported by stakeholders and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

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

As at 31 December 2019, the headquarters of the Group's Parent Company (Trakcja PRKiI S.A.) were located in Warsaw at ul. Złota 59. On 24 February 2020, the headquarters were relocated to a new address: Aleje Jerozolimskie 100. The ultimate parent company in Trakcja Group is COMSA S.A., a Spanish company which prepares the consolidated financial statements that include, among many, the data of Trakcja Group.

Structure of the Group

Trakcja PRKiI is the Parent Company of Trakcja Group. The Group's composition and structure as at 31 December 2019 is presented in the diagram below.



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

I. Key stakeholders and relationships with them

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

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

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

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

A wide range of the Group’s stakeholders includes:

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

II. Business model

GRI 102-2 GRI 102-4

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

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

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

It is especially important to the Group that:

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

Sales structure

In 2018 and 2019, the Group generated revenues primarily from rail and road contracts.

	2019		2018	
	value	**share**	**value**	**share**
Railway works	667 433	46,3%	647 463	41,5%
Road works	491 494	34,1%	712 200	45,6%
Bridge works	79 102	5,5%	32 961	2,1%
Cubature works	5 788	0,4%	4 508	0,3%
Tramway works	69 341	4,8%	19 728	1,3%
Energy works	65 168	4,5%	44 678	2,9%
Production	17 830	1,2%	50 262	3,2%
Other areas of activity	44 618	3,1%	48 848	3,1%
Total revenues from sales	**1 440 774**	**100%**	**1 560 648**	**100%**

Trakcja PRKiI S.A.

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

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

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

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

The Company plays an important role in providing for adequate technical conditions for the rail traffic and modernisation and construction of rail lines in Poland. For nearly 10 years the Company has been one of the industry leaders, completing several dozen contracts a year. Approximately 20% of rail lines for Pendolino, including sections of such key routes as Warsaw-Gdynia, Warsaw-Katowice, Kraków-Rzeszów and Częstochowa-Wrocław were comprehensively modernised by Trakcja PRKiI. Currently, the Company is in the process of modernising next rail line sections.

As far as the road industry is concerned, the operations of Trakcja PRKiI expand over nearly 40% of the land territory of Poland, mainly in the regions of Kujawy, Pomorze, Wielkopolska, Małopolska and Podlasie, where it modernises approximately 100 kn of local and provincial roads a year.

Energy-related contracts are currently performed in the central and southern part of Poland. Since 2001, the Company had been operating as an authorised rail transport operator that specialises in transporting goods. The Company has been awarded certificates that authorise it to use rail lines managed by PKP PLK S.A. As part of transport safety measures, the Company developed and implemented the SMS (Safety Management System).

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

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

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

Grupa AB Kauno Tiltai

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

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

The group employs over 800 people, including 200 qualified transport infrastructure engineers. AB Kauno tiltai has branches in Latvia, Sweden, Ukraine and Poland.

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

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

AB "Kauno tiltai" operates more than 500 construction machines and devices, equipped with state-of-the-art 3D systems. Investments in state-of-the-art technological solutions increase the competitive advantage in terms of quality, time and efficiency.

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

PEUiM Sp. z o.o.

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

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

Dalba Sp. z o.o.

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

PDM Białystok S.A.

PDM Białystok S.A. is a company with its registered office in Białystok. It provides property rental services to external and Group companies (mainly to PEUiM).

BTW Sp. z o.o.

Key activities of the Company are as follows:

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

PRK 7 Nieruchomości Sp. z o.o.

PRK 7 Nieruchomości Sp. z o.o. carries out real estate development activities and has a track record of several successful investment projects, which include, in particular, Lazurowe Osiedle residential project in Warsaw (stage I and II) and the project at ul. Oliwska in Warsaw, as well as the construction of five multi-family residential buildings in Warsaw at ul. Pełczyńskiego. For over a year, the company has been carrying out construction works – capacity construction works. The Company carries out the renovation of the library of the University of Warsaw. In 2019, she signed a new contract for the construction of a school in Ząbki.

Torprojekt Sp. z o.o.

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

Cooperation with suppliers

GRI 102-9

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

Parent company

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

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

5. Construction materials
6. road materials (bituminous masses, surface concretes, road barriers, steel, aggregates, substructure materials, noise barriers)

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

The Company applies the following supplier selection methods:

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

- Framework agreement

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

Supplier selection criteria:

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

Goods procurement forms:

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

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

Safety requirements for subcontractors

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

AB Kauno Tiltai

In organising the procurement of the materials necessary for construction purposes, AB "Kauno tiltai" focuses on the following issues:

1. Quality
2. Time (receipt of materials according to schedule)
3. Price

Special attention is paid to materials that are essential for the long-term operation of the structure. The company cooperates with local and international suppliers, acquiring inert materials, asphalt, metal structures, etc. It cooperates extensively with Polish, Czech and German companies.

Supplier selection methods:

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

Ordering forms

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

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

- Gravel, sand and mixtures
- Raw metal and metal structures
- Bituminous masses
- Fuel
- Electrical devices and power supply elements
- Concrete structures
- Asphalt
- Gas
- Other

PEUiM Sp. z o.o.

Main groups of the construction materials purchased:

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

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

2. Other construction materials:

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

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

Supplier selection and evaluation methods

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

III. Management

Risk management

Risk related to the construction sector

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

Risks and risk management system at the Parent Company

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

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

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

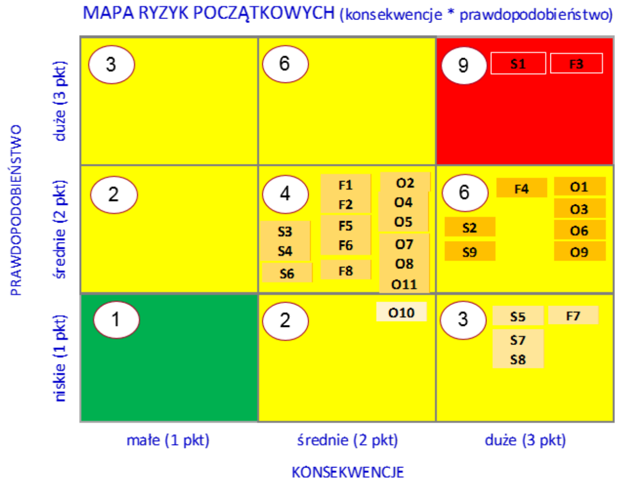
Identification and assessment of macro risks

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

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

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

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



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

Ethics and prevention of corruption

GRI 103-1; GRI 103-2; GRI 103-3; GRI 102-16

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

The success of every Organisation lies not only in the quality of its services and products, but also in the way it conducts its business and the standards applicable in it. In order to maintain and foster the relations established, to streamline internal regulations and to remain a modern and competitive company in the market, procedures have been developed and implemented in accordance with the principles of the Compliance policy. It comprises the sets of standards, issues, regulations and sets of recommendations elaborated for Trakcja Group, ensuring that the Group companies operate in accordance with the law and the adopted standards of conduct included in the TRAKCJA Group Code of Ethics, the Anti-Corruption Procedure, the Policy for Counteracting Unwanted Behaviour in the Working Environment and the Procedure for Cooperation with Law Enforcement and Control Authorities. These documents will help to minimise the risk of violation of applicable legal regulations or loss of long-established trust. They will indicate ways to effectively avoid the creation of a negative image of the company. The aforementioned procedures must be observed not only by employees of Trakcja Group, but also by business partners.

The Group has identified the following potential corruption risks:

- Risk that materials and services (employees and equipment) may be purchased from subcontractors at inflated prices
- Risk that liquid assets may be stolen
- Risk that assets may be undersold
- Risk that promises may be made which guarantee benefits to third parties as a result of the non-compliance with legal regulations

- Risk that bribes may be taken and given
- Risks that employees may be forced to carry out unlawful activities
- Risk of discriminatory treatment of employees
- Risk that confidential information may be stolen and sold to third parties
- Risk that transaction opportunities may be revealed to third parties.

Key Ethical Principles

The Group follows the following principles:

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

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

The Group's Code of Ethics

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

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

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

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

In keeping with the Group's Code of Ethics, the Parent Company's employees are obliged to notify their supervisor of any irregularities or violations of the provisions of the Code of Ethics. In 2019 and 2018, such notifications were not received.

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

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

Anti-corruption education and employee statement

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

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

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

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

Fraud Signalling Channel

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

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

Policy on ethics and counteracting irregularities

In 2018, the Parent Company worked on internal procedures in the area of ethics, counteracting irregularities, including corruption, and counteracting undesirable behaviours in the work environment. Their aim is to address the issue of ethical conduct with respect for the law and business standards – both within the organisation in relations between employees and in external relations with broadly understood business partners. In addition, the procedures will enable employees to report any irregularities at the Company (including anonymous reporting). The regulations will also introduce frameworks and procedures for offering and accepting gifts or entertainment as well as rules for hiring family members. In terms of counteracting irregularities in the work environment, the main objective will be to actively counteract undesirable types of behaviour in the work environment and to support the building of a positive atmosphere and good relations among Employees based on mutual understanding and respect. Also in this respect, employees will be able to report undesirable behaviour.

In 2019, Trakcja PRKiI S.A. implemented compliance procedures and provided training on the above procedures for its employees. The Company's employees also had to submit personal representations that they had read the Anti-Corruption Procedure of the Trakcja Group and the Policy for Counteracting Unwanted Behaviour in the Working Environment of the Trakcja Group.

As part of the Policy for Counteracting Unwanted Behaviour in the Working Environment of Trakcja PRKiI S.A., the institution of a Person of Trust was established. The Person of Trust is the first point of support for employees who report unwanted behaviour. He/she is also responsible for monitoring and ongoing cooperation with the Company in assessing the needs, planning and execution of measures aimed at raising employee awareness and educating employees on how to recognise and respond to unwanted behaviour. As part of other procedures, the Company has implemented, for example, the rules for hiring family members or giving and accepting gifts by employees. The above principles have been introduced as part of the Company's compliance with such values as: responsibility, trust, relationships, integrity and transparency.

Fraud Scheme Analysis

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

V. Environmental protection

GRI 103-1; GRI 103-2; GRI 103-3

Environmental policy

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

The objective of the environmental protection policy introduced in Trakcja PRKiI S.A. is to regulate the following areas:

- responsibility for waste generated,
- rules for making entries in the Database on products and packaging, and on waste management (BDO),
- rules for separated waste collection,
- rules for delivering waste to third-party businesses and to individuals and administration entities that are not businesses,
- methods of handling selected types of waste,
- rules for record keeping and reporting.

AB Kauno Tiltai has adopted the following environmental protection policies:

- Emergency preparedness and response
- Environmental protection management policy.

Environmental objectives of the Parent Company and their achievement in 2019

Detailed objective	Task	Comments
Compliance of the Company's activities with the applicable provisions of law.	Preparing a report on fees for the economic use of the environment in 2019 by individual province.	completed within the statutory deadline
Compliance of the Company's activities with the applicable provisions of law.	Prepraing records on waste generation in 2019.	completed within the statutory deadline
Compliance of the Company's activities with the applicable provisions of law.	Reporting to the National Centre for Emissions Management (KOBiZE).	completed within the statutory deadline
Compliance of the Company's activities with the applicable provisions of law.	Registration of the rooftop with the Central Register of Operators (related to F-Gases).	completed
Compliance of the Company's activities with the applicable provisions of law.	Launch of the process of obtaining a waste generation permit for the Bieńkowice location and notification of emissions.	in progress
Compliance of the Company's activities with the applicable provisions of law.	Notification of new places of business to the BDO system on an ongoing basis (to Marshal Offices).	on an ongoing basis
Obtaining a positive result of the supervision audit carried out by TUV SUD Sp. z o.o.	Preparation of a new facility – a repair hall in Wrocław.	completed
Compliance of the Company's activities with the applicable provisions of law.	Carrying out environmental measurements of work.	ongoing
Identifying and ongoing monitoring of changes in environmental legal requirements for business operations.	Updating the register of legal requirements pertaining to environment protection.	on an ongoing basis

A place in the ranking of the Wrocław City Office (the lowest	Monitoring industrial wastewater and ensuring that the permitted limits are not exceeded.	ongoing
Compliance of the Company's activities with the applicable	Conducting tests of rainwater and snowmelt. Collecting results of environmental measurements.	ongoing
Compliance of the Company's activities with the applicable provisions of law.	Carrying out construction work/ investment projects, in areas of significant natural value, with the participation of environmental or archaeological supervisors – compliance with guidelines of environmental decisions and other permits.	ongoing
Reduction in the SO_2 emissions to the air by 0.5% as compared to the preceding year	Reduction of emissions from the combustion of fuels when heating buildings through the use of fuel oils with a lower sulphur content.	ongoing
Compliance of the Company's activities with the applicable provisions of law.	Ongoing monitoring of environmental and waste management laws. Notifying organisational unit managers of changes in environmental regulations. Using company's sharepoint: Document Base/Environmental protection	completed
Maintaining compliance with environmental aspects during relocation to a new facility in Wrocław.	Handing over unnecessary documents for disposal – hiring a specialist company.	completed
Prevention of technical failures.	Ensuring that the installation and the electrical and mechanical equipment is fully operational; ongoing oversight of the equipment operation.	ongoing
Prevention of soil contamination.	More frequent inspections of machinery and equipment, checking the tightness of fittings. Replacing car oils at service stations. Using sorbents at construction sites.	ongoing
Year-on-year reduction in electricity consumption.	Purchasing power tools and equipment with reduced electricity consumption. Using energy-saving light bulbs and fluorescent lamps.	ongoing
Dissemination of knowledge and raising environmental awareness of the Company's employees.	Launching regular articles in the company newsletter: - environmentally friendly practices in the office, - reducing the generation of plastic waste, - ideas on how to reduce water consumption on a daily basis, - municipal waste management, - how to reduce smog, - eco-friendly Christmas.	ongoing

Update of procedures and instructions of the Integrated Management System for environmental protection.	- identification of environmental aspects broken down by contracts, production at ul. Palisadowa, Management Board Office, Technical Depots in Bieńkowice, at ul. Golędzinowska and ul. Gniewkowska in Warsaw, together with risk assessment and methods for reducing the negative impact of the Company's operations on the environment, - instructions and standards concerning, for example, site management, storage of hazardous substances, proper waste storage, proper waste delivery, etc. - Environmental management during the implementation of construction projects, with particular emphasis on communication in the area of environmental reporting with the Occupational Safety, Environmental Protection and Quality Department.	process launched in Q4

Factory Production Control System

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

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

The Group's environmental impact control

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

Item	Monitored element	Method	Obligations	Frequency
1	Oil-fired boiler house emissions	The boiler house is serviced by a specialist company on a monthly basis (checking the exhaust gas level)	- notification of the unit, - a CO2 detector is fitted to ensure the safety of employees, - use of proper fuel, - fuel oil (certificate).	- inspection of the boiler house on a monthly basis, - exhaust gas analysis twice a year
2	Gas-fired boiler house emissions	The boiler house is serviced by a specialist company.	- notification of the unit, - gas sourced from the municipal network, - sulphur content: up to 40 mg/m3.	- once a year
3	F-Gas emissions Rooftop	Inspections performed by specialist companies.	- registration with the CRO (on a one-off basis), - recording the inspection results in the system.	- once a year

4	Industrial wastewater	Testing the content of petroleum hydrocarbons in the sample taken, along with other pollutants as specified in the agreement with MPWiK.	- total phosphorus: ≤ 15 mgP/l, - petroleum hydrocarbons: ≤ 15 mg/l, - maintenance of a service book, - compliance with the agreement with MPWiK.	- analysis of wastewater content at least twice a year
5	Electricity	Performing electrical measurements in containers/construction site offices/office premises.	- keeping records of measurement results, - inspections carried out by authorised persons.	- once a year
6	Stormwater	Testing the content of total suspended solids and oil derivatives.	- total suspended solids: ≤100 mg/dm3, - oil derivatives: ≤15 mg/ dm3.	- analysis of water content at least twice a year
7	Waste management	Keeping waste records in accordance with environmental protection regulations (Waste Act).	Compliance with the conditions set out in the waste generation permit and the rules resulting from the Waste Act.	- ongoing storage of copies of waste record sheets
8	Waste management	Monitoring the security of temporary waste storage sites	Compliance with environmental regulations, in particular those arising from the Waste Act.	- scheduled internal audits, environmental inspections on site
9	Soil contamination	Monitoring the use of measures to protect soil and groundwater against uncontrolled leakage of fuel or operating fluids during, for example, refuelling or replacement.	Compliance with environmental regulations.	- scheduled internal audits, environmental inspections on site

Biodiversity

GRI 103-1; GRI 103-2; GRI 103-3; GRI 304-2; GRI 413-2

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

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

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

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

As part of the construction work carried out under the contract POR01 Reconstruction of track system together with auxiliary infrastructure at the E59 railway line, Poznań Główny – Rokietnica section as part of the project 'Works on the E59 railway line, Poznań Główny – Szczecin Dąbie section", the Contractor observes the Environmental decision WOO.II.4201.2.2014.JC.25 of 15 May 2015, issued by the Regional Director for Environmental Protection in Poznań. Additional decisions are as follows:
- WPN-II.6401.440.2018.AG of 10 January 2019 on the capture and translocation of protected species,
- WPN-II.6401.441.2018.AG of 6 February 2019 on the deliberate killing, destruction of habitats and sites, destruction of the nests of the Roman snail, red-tailed bumblebee and buff-tailed bumblebee.
- WPN-II.6401.442.2018.AG of 6 February 2019 on the deliberate disturbance and distress of protected birds and mammals and the destruction of their habitats or sites.

In August 2019, according to the environmental supervision report, it was found that there were no migrating amphibians (also young green frogs coming out of the water) near the construction site (near the ponds between Lake Strzeszyńskie and Kiekrz). The swallows in the heap of sand near the overpass in Rokietnica (approx. 16+400 km) have finished hatching. Many birds have already started their migration, especially in late August. The activity of larger and smaller mammals can still be observed, usually based on their traces. The construction site has no negative impact on the behaviour of birds and mammals. Owing to the Contractor's compliance with the requirements of the environmental decisions, no water reservoirs were found in the area covered by the Contractor's operations.
In September, amphibians started their autumn migration to wintering grounds, however, no migrating amphibians (also young green frogs coming out of the water) were observed near the construction site (near the ponds between Lake Strzeszyńskie and Kiekrz). Due to the absence of excavations, there is no danger of amphibians falling and dying in pits.

For the contract JAS Upgrade of the section Jaworzno Szczakowa – Trzebinia (km 1.150 – 0.000 of Line No. 134, km 15.810 – 29.110 of Line No. 133), there are two environmental decisions issued, as amened. These are: decision RDOŚ-24-WOOŚ/6613/33/08/BM issued on 18 December 2008 in Katowice and decision OO.AK.6665-1-1-08 issued on 22 December 2008 in Kraków. Individual construction phases are supervised by environmental authorities. According to the decision, the Contractor is required, among others, to:

- as regards the relocation of the Kozi Bród stream and the Łużnik stream – to carry out work outside the period of migration and reproduction of amphibians, i.e. outside the period March-May and September-October. Before relocating the stream, animals (including fish and amphibians) in a given section must be caught with the participation of a specialised naturalist. The shores of the relocated section of the stream must be covered with plants native to the Kozi Bród and Łużnik streams;
- design and build a passage system for amphibians and other small animals in the 28+700 section. The system is to comprise at least 5 tunnels with natural floor (recommended MPD-1 type passage described in the Catalogue of Road Environmental Protection Equipment, year of issue: 2003) located every 50-60 meters with fences leading to the passages;
- use ground fencing in places where amphibians occur, based on a fence made of foil or netting with 0.5x0.5 cm mesh or agro-textile stretched on poles to a height of about 0.5 m above sea level with an upper roof (overhang) of 10-15 cm, with the bottom part dug into the ground to a depth of at least 15 cm.

According to the supervision report of October 2019, the upgraded railway line runs through the area of Natura 2000 PLH240042 "Meadows in Jaworzno". The protected area extends to the right and left of the embankment. During the environmental supervision inspection in the previous period, extensive fragments of protected Molinietalia class meadows were reported, situated in a mosaic with oatgrass meadows and rush communities. The works carried out on the top of the tracks and within the facilities did not adversely affect the condition of this habitat. The remaining area within the modernized railway line was dominated by perennial plant communities in the ruderal areas of Artemisietea vulgaris.

The most important amphibian breeding, wintering and feeding area is the section at the level of the Natura 2000 area "Meadows in Jaworzno". The October inspections confirmed the importance of this area for amphibians, with migration of brown frogs and grey toads. Migration of single green frog specimens has been confirmed at the level of constructed animal passages – 28+700 km. During the reporting period, significant progress was recorded in the area of the amphibian crossing system at the level of 28+500-29+000 km. It was found that the correct method of removing water from the excavations by means of pumps was applied, where the suction end is secured to eliminate the possibility of sucking in small animals.

Environmental impact mitigation

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

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

Another issue of great importance is environmental protection against noise. During the implementation of the construction works the Group follows strict time regimes set for works implemented using equipment that causes noise. Work in human settlements is carried out between 6:00 am and 10:00 pm. In addition to this, acoustic screens, which protect the nearest surroundings against noise caused by vehicles, are implemented along the roads and rail lines. The screens are of very good parameters which provide for high acoustic insulation and excellent noise absorption.

The Group is also prepared for any emergencies that may have an effect on biodiversity. The Group uses required equipment and materials such as absorbing agents used in case of chemical leakage. Construction equipment and other means of transport are technically functional and meet the emission limits. Frequent inspections of machinery and equipment prevent any potential soil contamination. Upgrading the machinery and vehicle fleet reduces the consumption of oils, fuels or greases. Machines are refuelled directly from tanks, and cars are refuelled at petrol stations. Additionally, each machine is equipped with absorbing agents in case of accidental fuel or oil leakage. Trees and their trunks, not intended for cutting, are protected against damage, e.g. using planks and covers during excavator work.

In the course of construction works, the Group reduces the generation of waste at source and its negative impact on the environment. In accordance with environmental protection regulations, waste is initially treated in a recovery process and subsequently, where this is not possible anymore, it is delivered to entities holding appropriate decisions and permits for waste collection or processing.

Through the application of the principles: "Don't print if you don't have to", "Turn off the light", "Save water", "Segregate waste" (introduction of separate waste collection containers, including containers for used batteries), the Group raises environmental awareness among employees.

Examples of adverse environmental impacts and preventing methods

As part of the environmental supervision inspection of the LCS Łowicz contract In the report of March 2019 and April 2019, the environmental supervision authorities pointed out the need to install protective fences at the created and existing reservoirs that may become breeding sites for amphibians. The contractor (Trakcja PRKiI) fenced the area after archaeological surveys in Kęszyce Wieś at about km 64+900 – in the reporting period, there was no construction work carried out in this location. The fences were set up as recommended at the Mysłak station, near the construction site. The field inspection did not identify any particular amphibian activity. The Contractor placed safety fences at the passage in km 74,297 on both sides of the road; due to the regulated flow of the stream, the Contractor was ordered to dismantle them. The contractor has restored the possibility of flow on streams and ditches in accordance with the recommendations of the environmental supervision authorities.

Environmental risks

The Group has identified the following environmental risks:

Environmental risk	Risk management
Machinery and installation fire	Operational fire-fighting equipment, emergency fire safety instructions are displayed.
Unexploded ordnance (fuses, shells, air bombs, artillery and rifle cartridges, rocket-propelled grenades, grenades, mines of all types, explosives charges, metal scrap containing residual explosives)	Suspension of work, notification of the relevant emergency services, evacuation of workers and local community (if necessary). The method of carrying out enforcement activities will be based on the rescue methodology used by competent services.
Archaeological discoveries	If objects that could indicate the existence of an archaeological site in a given area are discovered during earthworks, the following procedure will be applied: 1. Suspension of work; 2. Notification of the Provincial Heritage Conservator 3. Notification of the Contracting Authority and the Contract Engineer.
Leakage of oils, vehicle fluids, etc.	Sorbent containers for collecting spilled liquids are placed in the plant and in construction sites' facilities. Oil containers are placed in special basins.
Leakage of fuel oil into the boiler house	Basins fitted around fuel oil tank units.
Leakage of oil from machinery into the ground (e.g. caused by a ruptured hose)	Neutralisation with sorbents.
Penetration of substances from hazardous waste into the ground	All hazardous waste is properly described by name and code, secured in containers, bins or placed on film-protected ground. They are delivered only to companies that hold the appropriate waste management decisions.

Consumption of materials

GRI 103-1; GRI 103-2; GRI 103-3

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

Item	Optimised use of materials	Reduced consumption
1	Elimination of workplace-assigned printers.	Cartridges and toners
2	Replacement of lights with energy-saving ones.	Fluorescent lights
3	Double-sided printing.	Scrap paper
4	Upgrade of machinery and vehicle fleet.	Oil, fuels, lubricants, filters, car parts, maintenance and

		replacement of engines in diesel locomotive engines, reduction of cars in the fleet
5	Cleaned and sieved gravel is reused as a construction material.	Crushed aggregate
6	Crushed concrete is used as a base for roads.	Concrete rubble
7	Milled material is handed over to an asphalt manufacturing company or used as a base for roads.	Asphalt

Please find below information on consumption of key materials or raw materials by weight or volume. The data presented herein pertain to the companies that execute the most contracts, i.e. Trakcja PRKiI S.A. and AB Kauno tiltai.

GRI 301-1 GRI 301-2

Group:

	Year ended	
Material	**31.12.2019**	**31.12.2018**
Aggregate (t)	1 488 530	842 992
Sand (t)	263 234	313 801
Mixture of sand and gravel (t)	522 773	317 507
Gravel (t)	48 965	10 023
Aggregate (granite) (t)	52 790	54 480
Metal constructions (t)	1 620	5 818
Bitumen (t)	14 960	15 034
Mineral mixtures (t)	9 307	12 240
Asphalt (t)	2 255	17
Plank (m3)	180	384
Cement (t)	1 649	10 008
Felt (m2)	14	28
Copper contact wire (t)	387	445
Steel and aluminum-steel wire (t)	50	40
Cables up to 1000 V (t)	105	77 799
Hot rolled flat products	963	398
Barbed wire of iron and steel; stranded and twisted wire, cables, tapes and similar articles of copper or aluminum (t)	3	485
including bare wires (t)	*3*	*176*
Steel rods, hot-rolled, hot-drawn or extruded (t)	95	231
Sections, not further worked than hot-rolled, hot-drawn or extruded, of steel (t)	861	2 026
Structural elements of steel rail or tram tracks (t)	2 077	14 825
including rail and tram rails (t)	*1 216*	*11 365*
Concrete debris	31 544	40
Reclaimed asphalt	8 025	3 300
Rail rubble	14 906	11 750
Earth masses	390 882	600 000

Parent Company:

	Year ended	
Material	**31.12.2019**	**31.12.2018**
Aggregate (t)	913 100	404 643
Plank (m3)	180	635
Cement (t)	1 649	10 008
Felt (m2)	14	5 146
Copper contact wire (t)	387	445
Steel and aluminum-steel wire (t)	50	40
Cables up to 1000 V (t)	105	77 799
Hot rolled flat products	963	398
Barbed wire of iron and steel; stranded and twisted wire, cables, tapes and similar articles of copper or aluminum (t)	3	485
including bare wires (t)	*3*	*176*
Steel rods, hot-rolled, hot-drawn or extruded (t)	95	231
Sections, not further worked than hot-rolled, hot-drawn or extruded, of steel (t)	861	2 026
Structural elements of steel rail or tram tracks (t)	2 077	14 825
including rail and tram rails (t)	*1 216*	*11 365*
Concrete debris	31 544	40
Reclaimed asphalt	8 025	3 300
Rail rubble	14 906	11 750
Earth masses	390 882	600 000

Materials used for internal purposes:

Group:

	Year ended	
Waste (tonnes)	**31.12.2019**	**31.12.2018**
Waste from concrete and concrete rubble	34 540	2 766
Asphalt waste	19 763	24 345
Rail rubble	14 906	11 750
Earth masses	390 882	600 000
Mixed building materials	1 919	770
Total	**462 011**	**639 630**
The total mass of materials produced	**2 856 175**	**2 293 671**
% of materials used for own needs	**16%**	**28%**

Parent Company:

	Year ended	
Waste (tonnes)	**31.12.2019**	**31.12.2018**
Waste from concrete and concrete rubble	31 544	40
Asphalt waste	8 025	3 300
Rail rubble	14 906	11 750
Earth masses	390 882	600 000
Total	**445 357**	**615 090**
The total mass of materials produced	**1 366 059**	**1 126 402**
% of materials used for own needs	**33%**	**55%**

Energy consumption inside the organisation

GRI 103-1; GRI 103-2; GRI 103-3; GRI 302-1

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

The table below presents consumption of energy inside the organisation in the Parent Company, AB Kauno Tiltai, PEUiM Sp. z o.o and Dalba Sp. z o.o. Other companies did not keep any records concerning consumption of energy inside the organisation in 2018 or 2017.

Group:

	Year ended	
Energy (GJ)	**31.12.2019**	**31.12.2018**
Heat energy (GJ)	1 629	3 582
Electricity (GJ)	13 584	9 125
Gas energy (GJ)	104 648	126 912
Heat energy (hard coal)	321	358
Heating oil (GJ)	20 085	18 146
Diesel oil (GJ)	174 299	187 510
Petrol (GJ)	13 854	10 334
LPG gas (GJ)	166	364
Total energy and fuel consumption	**328 586**	**356 332**

Parent Company:

	Year ended	
Energy (GJ)	**31.12.2019**	**31.12.2018**
Heat energy (GJ)	1 629	3 582
Electricity (GJ)	5 792	1 346
Gas energy (GJ)	1 268	0
Heat energy (hard coal)	322	358
Heating oil (GJ)	1 793	3 935
Diesel oil (GJ)	78 952	92 512
Petrol (GJ)	12 172	8 637
LPG gas (GJ)	121	218
Total energy and fuel consumption	**102 049**	**110 588**

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

Air emissions

GRI 103-1; GRI 103-2; GRI 103-3

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

The Parent Company optimises the emission of gases and dusts into the air from the Repair Hall in Wrocław. For the purposes of heating and hot water production, a gas-fired boiler house has been designed and operated. Since gas-fired boilers have a lower output than, for example, oil-fired boilers, the volume of pollutants is not significant and does not exceed the emission limit values.

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

In order to reduce emissions of dust during the transport of bulk materials, the means of transport are thoroughly covered with canvass. During high temperatures, access roads to construction sites and along the line of construction work are periodically sprayed with water to eliminate dust. In addition, there is a 20 km/h vehicle speed limit on construction sites and in the work area.

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

The emission impact in the area and in the nearest vicinity of a residential development falls entirely within the admissible limits, i.e. between 1% (for carbon monoxide, aliphatic and aromatic hydrocarbons) and 46% (for nitrogen dioxide) of short-term limits (references).

Mitigation of environmental impact of products and services

GRI 413-2

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

The construction and manufacturing operations of our company do not require the use of water for technological purposes. Water is used only for human consumption. We optimise water consumption through appeals to the staff, slogans and tags at the water intake points.

Waste

GRI 306-2

The Group endeavours to reduce to a minimum the quantity of waste generated. Waste, if not used for internal purposes, is collected only by entities authorised by a relevant authority to carry out business activities in the area of waste management. The ongoing supervision is ensured through the quality and quantity records.
The table below presents the major types of waste generated in the Group and Parent Company in 2019 as compared to 2018 (t).
Group:

	Year ended	
	31.12.2019	**31.12.2018**
Non-hazardous waste (t)	**74 861**	**321 438**
Waste from concrete	19 325	22 568
Waste of other ceramic materials	15	2
Asphalt different	50	2 096
Iron, steel	316	133
Soil, soil, including stones	15 408	246 721
Rail rubble	0	38 533
Mixed construction waste	6 646	11 174
Others	33 101	212
Hazardous waste (t)	**458**	**4 551**
Waste wood, glass, plastic	346	4 481
Other waste	112	70

	Year ended	
Method of dealing with waste	**31.12.2019**	**31.12.2018**
Used for own needs	7 763	7 496
Handing over to authorized entities	53 872	122 844
Handing over to natural persons, in accordance with the ordinance of the Minister of the Environment of November 10, 2015	13 684	195 651

Parent Company:

	Year ended	
	31.12.2019	**31.12.2018**
Non-hazardous waste (t)	**62 137**	**301 549**
Waste from concrete	13 304	13 036
Asphalt different	50	2 096
Iron, steel	316	133
Soil, soil, including stones	15 408	246 721
Rail rubble	0	38 533
Mixed construction waste	53	902
Waste wood	22	120
Other	32 984	8
Hazardous waste (t)	**351**	**4 483**
Waste wood, glass, plastic	346	4 481
Other waste	5	2

	Year ended	
Method of dealing with waste	**31.12.2019**	**31.12.2018**
Used for own needs	11	0
Handing over to authorized entities	48 792	110 383
ordinance of the Minister of the Environment of November 10, 2015	13 684	195 651

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

VI. Social and employee aspects

GRI 103-1; GRI 103-2; GRI 103-3; GRI 401-2

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

The employee competences, in particular in the railway and construction-related professions, are regulated by numerous national regulations, compliance with which is ensured by the system of training and briefing that has been implemented by the Company. The management boards of the Group companies maintain a regular dialogue with trade unions that operate within the companies. Good relations with the trade unions reflect positively on the efficiency of social activities focused on our employees.

The data concerning employment presented below relate to all Trakcja Group companies.

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

Employment structure

GRI 102-8; GRI 405-1

Employment structure as at the balance sheet date in the Group and the Parent Company:

Group:

	31.12.2019	31.12.2018
Women	326	313
Men	1 936	1 965
Total	**2 262**	**2 278**

Parent Company:

	31.12.2019	31.12.2018
Women	215	196
Men	992	1 036
Total	**1 207**	**1 232**

Total number of employees by age in the Group and the Parent Company:

Group:

	31.12.2019	31.12.2018
< 30 years	397	397
30-50 years	1 178	1 195
> 50 years	687	686
Total	**2 262**	**2 278**

Parent Company:

	31.12.2019	31.12.2018
< 30 years	277	281
30-50 years	640	646
> 50 years	290	305
Total	**1 207**	**1 232**

Total number of employees by type of contract signed in the Group and the Parent Company:

Group:

		31.12.2019			31.12.2018		
category	**Gender**	**< 30 years**	**30 - 50 years**	**> 50 years**	**< 30 years**	**30 - 50 years**	**> 50 years**
job contract	Women	76	198	52	67	188	58
	Men	321	980	635	330	1 007	628
civil law contract	Women	3	7	11	4	3	12
	Men	5	16	20	1	17	10

Parent Company:

		31.12.2019			31.12.2018		
category	**Gender**	**< 30 years**	**30 - 50 years**	**> 50 years**	**< 30 years**	**30 - 50 years**	**> 50 years**
job contract	Women	62	126	27	54	110	32
	Men	215	514	263	227	536	273
civil law contract	Women	3	5	11	4	2	12
	Men	3	10	12	0	4	10

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

The share of women in the employment structure reflects the nature of the construction industry.

Total number of employees by type of contract and gender in the Group and the Parent Company:

Group:

category	Gender	31.12.2019	31.12.2018
Contract of unlimited duration	Women	278	269
	Men	1 736	1 781
Contract of limited duration	Women	48	44
	Men	200	184

		31.12.2019	31.12.2018
Full-time	Women	315	303
	Men	1 922	1 955
Part-time	Women	11	10
	Men	14	10

Parent Company:

category	Gender	31.12.2019	31.12.2018
Contract of unlimited duration	Women	173	162
	Men	835	892
Contract of limited duration	Women	42	34
	Men	157	144

		31.12.2019	31.12.2018
Full-time	Women	207	190
	Men	988	1 032
Part-time	Women	8	6
	Men	4	4

The Group's objective is to provide for stable employment to its employees through the enhancement of full-time and reduction in part-time employment.

Employees by employment category, age and gender (number and percentage of employees):

Group:

		31.12.2019			31.12.2018		
Category	**Gender**	**< 30 years**	**30 - 50 years**	**> 50 years**	**< 30 years**	**30 - 50 years**	**> 50 years**
Management Board	Women	**0**	0	0	0	0	0
	Men	0	1	1	0	2	2
Senior management	Women	0	15	4	0	16	5
	Men	0	49	28	0	43	27
Management	Women	4	26	8	5	21	9
	Men	12	128	36	14	135	34
White-collar employees	Women	70	158	38	61	150	43
	Men	91	231	82	96	194	106
Blue-collar employees	Women	0	2	1	1	1	1
	Men	220	568	489	220	608	485
Total		**397**	**1 178**	**687**	**397**	**1 170**	**712**

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

	31.12.2019			31.12.2018		
	< 30 years	30 - 50 years	> 50 years	< 30 years	30 - 50 years	> 50 years
Management Board	0%	50%	50%	0%	50%	50%
Senior management	0%	67%	33%	0%	65%	35%
Management	7%	72%	21%	9%	72%	20%
White-collar employees	24%	58%	18%	24%	53%	23%
Blue-collar employees	17%	45%	38%	17%	46%	37%

Parent Company:

		31.12.2019			31.12.2018		
Category	**Gender**	**< 30 years**	**30 - 50 years**	**> 50 years**	**< 30 years**	**30 - 50 years**	**> 50 years**
Management Board	Women	**0**	0	0	0	0	0
	Men	0	1	1	0	2	2
Senior management	Women	0	9	3	0	8	4
	Men	0	36	17	0	31	17
Management	Women	4	20	4	5	15	5
	Men	11	100	24	13	106	23
White-collar employees	Women	58	97	19	49	87	22
	Men	62	112	34	70	103	32
Blue-collar employees	Women	0	0	1	0	0	1
	Men	142	265	187	144	294	199
Total		**277**	**640**	**290**	**281**	**646**	**305**

	31.12.2019			31.12.2018		
	< 30 years	30 - 50 years	> 50 years	< 30 years	30 - 50 years	> 50 years
Management Board	0%	50%	50%	0%	50%	50%
Senior management	0%	69%	31%	0%	65%	35%
Management	9%	74%	17%	11%	72%	17%
White-collar employees	31%	55%	14%	33%	52%	15%
Blue-collar employees	24%	45%	32%	23%	46%	31%

Corporate bodies:

	31.12.2019		31.12.2018	
	Management	Supervisory Board	Management	Supervisory Board
30-50 years	50%	20%	50%	43%
> 50 years	50%	80%	50%	57%

Applicable to the Parent Company's Supervisory Board. In 2019, the Supervisory Board was composed of one woman and six men (four Polish citizens, three foreign citizens), whereas in 2018 the Supervisory Board members were all male and three of them were foreign citizens.

Pay equity

GRI 103-1; GRI 103-2; GRI 103-3; GRI 405-2

The ratio of the average salary paid to women to the average salary paid to men by employment categories in the Group and the Parent Company:

Group:

	31.12.2019	31.12.2018
Management Board	nd	nd
Senior management	110%	90%
Management	96%	86%
White-collar employees	103%	83%
Blue-collar employees	84%	78%

Parent Company:

	31.12.2019	31.12.2018
Management Board	nd	nd
Senior management	113%	107%
Management	99%	86%
White-collar employees	119%	89%
Blue-collar employees	78%	87%

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

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

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

Employee turnover

GRI 401-1

In 2017-2018, the Parent Company actively sought new employees. In 2019, employment in the Group and the Parent Company stabilised: the level of new hires was similar to that of departures. The Group continued to efficiently meet its ongoing human-resources needs and effectively acquired personnel for the development of the Group's new competences.

In Trakcja PRKiI S.A., the training process, from the needs analysis to its implementation, is governed by the "Procedure for planning and implementing training in TRAKCJA PRKiI SA". According to this procedure, training and development needs are recorded at the beginning of each year. These needs are supplemented by training proposed in the Process of accounting for and setting goals after employee interviews. A training plan is developed on the basis of identified needs. They comprise measures that expand the competences of employees that are necessary to achieve the company's objectives. The plan prepared in this manner is presented to the Company's Management Board for approval. Once it has been approved, the plan is implemented. On 1 October 2019, the Parent Company implemented the Onboarding process. It is a process aimed at introducing a new employee to the company and providing him/her with information about: job description, development opportunities, key procedures, organizational structure, strategy, mission and vision of the company. This process helps reduce employee turnover, increase employees' involvement, job satisfaction and productivity. In turn, employees who have the opportunity to get to know the company right from the first days of work, have a better understanding of the company's goals and their role in achieving them. This makes them more involved in the work and life of the entire organisation. They identify themselves with the company, its mission and values more quickly, and perform their tasks more effectively from the first weeks of work. This process is particularly important when hiring young people with limited professional experience who need special assistance during their first days of work.

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

New employees by age and gender (and % share in a respective category) in the Group and the Parent Company:

Group:

	Year ended			
	31.12.2019		31.12.2018	
	Number	part %	Number	part %
< 30 years	236	59%	248	62%
30-50 years	282	24%	300	25%
> 50 years	86	13%	116	17%
Total	**604**	**27%**	**664**	**29%**

	Year ended			
	31.12.2019		31.12.2018	
	Number	part %	Number	part %
Women	81	25%	65	21%
Men	523	27%	599	30%
Total	**604**	**27%**	**664**	**29%**

Parent Company:

	Year ended			
	31.12.2019		31.12.2018	
	Number	part %	Number	part %
< 30 years	124	45%	130	46%
30-50 years	146	23%	165	26%
> 50 years	29	10%	42	14%
Total	**299**	**25%**	**337**	**27%**

	Year ended			
	31.12.2019		31.12.2018	
	Number	part %	Number	part %
Women	73	34%	49	25%
Men	226	23%	288	28%
Total	**299**	**25%**	**337**	**27%**

Departing employees by age and gender (and % share in a respective category) in the Group and the Parent Company:

Group:

	Year ended			
	31.12.2019		31.12.2018	
	Number	part %	Number	part %
< 30 years	179	45%	144	36%
30-50 years	310	26%	206	17%
> 50 years	132	19%	140	20%
Total	**621**	**27%**	**490**	**22%**

	Year ended			
	31.12.2019		31.12.2018	
	Number	part %	Number	part %
Women	68	21%	38	12%
Men	553	29%	452	23%
Total	**621**	**27%**	**490**	**22%**

Parent Company:

	Year ended			
	31.12.2019		31.12.2018	
	Number	part %	Number	part %
< 30 years	84	30%	47	17%
30-50 years	180	28%	81	13%
> 50 years	60	21%	49	16%
Total	**324**	**27%**	**177**	**14%**

	Year ended			
	31.12.2019		31.12.2018	
	Number	part %	Number	part %
Women	54	25%	27	14%
Men	270	27%	150	14%
Total	**324**	**27%**	**177**	**14%**

Training

GRI 103-1; GRI 103-2; GRI 103-3; GRI 404-1

The Group is committed to ensuring that its employees have opportunities for development. In order to achieve this it offers them trainings and support in further education. In 2019, the Group's employees participated in over 16.6 thousand hours of training which represents an increase by 45.7% compared to 2018.

Number of training hours by employment category and gender:

Group:

	Year ended			
	31.12.2019		31.12.2018	
	Men	Women	Men	Women
Management Board	72	88	0	40
Senior management	128	576	312	1 228
Management	610	1 982	172	594
White-collar employees	2 233	4 275	742	1 370
Blue-collar employees	0	6 666	0	6 951
Total number of training hours	**3 043**	**13 587**	**1 226**	**10 183**

Parent Company:

	Year ended			
	31.12.2019		31.12.2018	
	Men	Women	Men	Women
Management Board	0	56	0	40
Senior management	96	568	192	1 200
Management	304	336	160	488
White-collar employees	574	956	576	967
Blue-collar employees	0	2 904	0	6 032
Total number of training hours	**974**	**4 820**	**928**	**8 727**

Average number of training hours by employment category and gender in the Group and the Parent Company:

Group:

	Year ended			
	31.12.2019		31.12.2018	
	Women	Men	Women	Men
Management Board	nd	44,0	nd	10,0
Senior management	6,7	7,5	14,9	17,5
Management	16,1	11,3	4,9	3,2
White-collar employees	8,4	10,6	2,9	3,5
Blue-collar employees	0,0	5,2	0,0	5,3
Total hours of training per year	**9,3**	**7,0**	**3,9**	**5,2**

Parent Company:

	Year ended			
	31.12.2019		31.12.2018	
	Women	Men	Women	Men
Management Board	nd	28,0	nd	10,0
Senior management	8,0	10,7	16,0	25,0
Management	10,9	2,5	6,4	3,4
White-collar employees	3,3	4,6	3,6	4,7
Blue-collar employees	0,0	4,9	0,0	9,5
Total hours of training per year	**4,5**	**4,9**	**4,7**	**8,4**

Risk associated with employment issues

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

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

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

The Parent Company mitigates the risk that it may have no new employees through the establishment of a new unit responsible for recruitment processes in 2017.

Occupational health and safety

GRI 103-1; GRI 103-2; GRI 103-3; GRI 102-12

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

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

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

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

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

- injuries and losses related thereto to be prevented,
- occupational diseases to be eliminated,

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

In 2018, Bahn Technik Wrocław Sp. z o.o. updated its professional risk assessment according to the new PN-N 18002 method, taking into account the threats occurring in the company. In addition, a number of instructions for the safe execution of construction works and recommendations have been introduced, inspections to examine the psychological and physical condition of employees have been intensified, additional inspections of subcontractors have been introduced, and oversight of the work performed has been increased.

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

Its main tasks include:

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

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

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

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

OHS preventive actions

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

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

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

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

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

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

As the Parent Company is constantly enhancing its safety culture and due to the changing tender conditions, two early warning systems (ASO) were purchased in 2017. They are radio warning systems and are used to warn employees who work on tracks, with the use of an acoustic and optical signal, that a train is coming. A significant advantage of these systems is the fact that they are started automatically by a rail vehicle that approaches a place on the trucks where works are carried out. Systems provide for a high level of safety for the employees, in particular, when the tracks are available for vehicles moving with the speed V>100 km/h. In 2018, the project was ranked third in the Technical Solutions category of the competition "Improvement of working conditions" held by the Ministry of Family, Labour and Social Policy. The upgrade of warning and monitoring systems on trains for comprehensive track replacement was also submitted for the above mentioned competition. Trakcja PRKiI received the "Distinction" for this project.

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

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

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

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

Safety Culture Declaration

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

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

OHS training

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

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

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

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

Safe Work Leaders' Forum

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

"Visible – Safe" Campaign

Understanding the need for safety not only of employees but also of people moving in the vicinity of the projects, in 2017 the Parent Company launched a campaign entitled "Visible – Safe" and continued it also in 2018. The campaign is addressed to primary school children in the vicinity of the contract execution sites. During the meetings, children are informed about the rules of moving around the construction site, get to know the machinery and equipment used during the work, and learn about the importance of using reflective elements to improve their safety through better visibility. The meetings are very well received by children, school management and local media.

Safety Day

As a part of the vocational development, in November 2017 the Parent Company held demonstrations and exercises on work at heights. This event was called the “Safety Day”. These demonstrations heralded the training sessions that took place at construction sites in 2018, as well as the campaign entitled “Safety at heights”. With the participation of specialists, the employees were trained in the use of protective equipment, how to work safely at height and how to deal with accidents and the need to provide assistance to those who have suffered injuries at height. The training also includes a practical element consisting in checking the skills of the company's employees.

Purchase of defibrillators

After purchasing defibrillators in 2018, the Parent Company joined the “Ratuj z sercem” Programme, otherwise known as the “AED Map”, supported by POLKARD and the Ministry of Health and Social Welfare. It is a programme for common access to defibrillation equipment, aimed at finding defibrillators that are in use in Poland and placing them on one map. Given that the Company's projects cover the entire country, it was concluded that joining the Programme and providing access to defibrillators would help not only employees but also the local community, especially villages and small towns where there is no access to such equipment.

Collaboration with the National Labour Inspectorate

The Parent Company is a responsible employer which provides for safe working conditions for its employees, and therefore it carries out tasks imposed on it by the National Labour Inspectorate and by the Polish Office of Rail Transportation, the Office of Technical Inspection and the General Office of Building Control. No evidence of gross negligence was found during the inspections carried out. This is primarily because each year the cooperation with the National Labour Inspectorate is expanded. Inspectors visit all the construction sites on a regular basis and provide our management with advice and support, and whenever possible, they also participate in the meetings of the OHS Department. Propaganda materials developed by the Labour Inspectorate, CIOP-PIB or UTK are also used. Owing to the tightening cooperation with the National Labour Inspectorate, Trakcja PRKiI took steps to join the Labour Inspectorate's programme entitled: "Accident prevention" and the competition entitled: "Employer – organizer of safe work".

Subcontractors and OHS

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

The Parent Company has established "Work Regulations" which cover OHS issues such as:

1. standards for the allocation of working clothes and footwear, protective measures for workers and rules for the management of these measures,

2. a list of activities forbidden to women and rules for the employment of young people,

3. a list of particularly dangerous and physically demanding tasks,

4. a list of tasks to be carried out by at least two people,

5. basic responsibilities of the employer,

6. basic responsibilities of employees,

7. determination of working time and rules for accounting for working time,

8. rules for using the employee's holiday entitlements,

9. principles of employee responsibility for non-compliance with OHS regulations,

10. list of tasks that require special psychological and physical fitness,

11. rules for paying remuneration for work,

12. list of positions on which employee meals should be provided.

Accidents at work

GRI 403-2

A summary presenting the type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by gender for the Group and Parent Company is provided below. The accidents took place in Poland and Lithuania.

Group:

	Year ended			
	31.12.2019		31.12.2018	
	Men	Women	Men	Women
Number of accidents	39	1	30	0
Accident rate (number of accidents x 1000 by average employment)	20,1	3,1	15	0,0
Number of incapacity for work related to accidents at work	1 639	34	1 245	0
Number of post-accident days per one accident	42,0	34	42	nd
Fatal accidents	2	0	0	0
Heavy accidents	0	0	0	0
Other accidents	28	7	30	0
Number of registered occupational disseases	0	0	4	0

Parent Company:

	Year ended			
	31.12.2019		31.12.2018	
	Men	Women	Men	Women
Number of accidents	24	1	16	0
Accident rate (number of accidents x 1000 by average employment)	20,0	0,0	12,99	0,0
Number of incapacity for work related to accidents at work	1 315	34	838	0
Number of post-accident days per one accident	55	34	52	nd
Fatal accidents	0	0	0	0
Heavy accidents	0	0	0	0
Other accidents	24	1	16	0
Number of registered occupational disseases	0	0	0	0

Impact on local community

GRI 413-2; GRI 103-1; GRI 103-2; GRI 103-3

The contract managers are the closest to the projects and they are the first to be notified of any problems or incidents that have to be addressed.

This year, no social conflicts were recorded in the Parent Company which would result in suspension of construction works.

When executing projects, the Group uses solutions ensuring effective operations while not disturbing the functioning of the local community, e.g. by:

- supervision of OHS coordinators, monitoring the course of daily work and activities performed in accordance with safety rules, training in procedures applicable to environmental protection, rules of conduct in the event of failure,
- ongoing technical checks and timely inspections of construction equipment,
- storing absorbing agents at the construction site facilities, next to parking cars, machines and technical devices, allowing for immediate counteraction of leaks of harmful liquids, e.g. engine oil or hydraulic fluid,
- carrying out ground works in the vicinity of trees or shrubs, or their complexes, only in harmony with the local environment,
- storage of small waste in the labelled containers that additionally prevent environmental pollution,
- hazardous waste, generated from construction work, is stored in containers placed on specially hardened storage yards, on construction sites or on sites leased specially for this purpose,
- securing containers and storage areas against access by bystanders and animals,
- optimal use of raw materials and consumables and minimization of waste (cleaned and sieved gravel is reused as a construction material, crushed concrete is used as a base for technical roads),
- use of protective mats to avoid damaging tree trunks by construction equipment, whereas in the case of repairs of possible damage to trees, compensatory plantings are carried out,
- minimising noise by working during the day,
- construction of temporary roads in such places as to minimize the inconvenience caused to road users and local residents.

The work carried out at each stage is monitored by environmental experts from various fields and by the investor, who monitor the situation on an ongoing basis, provide advice, conclusions and recommendations.

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

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

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

CSR activities

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

Risks in relationships with local communities

An immanent feature of the construction process is temporary inconvenience in the functioning of local communities. Changes in traffic organisation, detours, noise or difficult access to the property are reasons for periodic deterioration in the quality of life of local residents, and as a consequence become sources of negative emotions. The key risk during the implementation of construction works is that the discontent may escalate and result in such construction works being extended or suspended.

Threat	significant	real	potentially
organizational			
disturbances in communication routes	x		
Difficult access to nearby institutions and homes	x		
noise		x	
disruptive course of temporary roads		x	
environmental			
irreversible landscape changes	x		
storage of harmful materials in the back office			x
incorrect storage of waste		x	
damage to trees and shrubs by heavy equipment			x
timely			
prolonged work		x	
protests of ecological environments			x
protests of local communities			x
stopping works related to the natural cycle		x	
unforeseen situations (weather conditions)			x

The Group has implemented a series of measures counteracting such situations, as a result of which in the last period they occurred only occasionally and did not have any significant impact on the contracts implemented in the previous year. These measures are as follows:

1. Close cooperation with local authorities, in particular, at the stage of carrying out the preparatory works aimed at the selection of the solution most optimal for the local community.
2. Regular information measures taken in collaboration with the awarding entity and local authorities.
3. Ongoing monitoring of signals that come from residents, both directly to the Group and to the local authorities, the awarding entity or through the local media. Attention should be paid, in particular, to the daily monitoring of media: newspapers, radio, television, Internet, and in particular social media. Any publication that indicates any irregularities or tensions is forwarded to the relevant entity that manages the construction site concerned. The Parent Company monitors media on every working day and the report thereon is issued every day by 9.30 a.m. This way, the Parent Company issues on average 250 daily reports and nearly 150 ad hoc reports per year. A very effecting action of the Parent Company, as far as communication area is concerned, involved the establishment of permanent cooperation with the administrator of the profile dedicated to the investment project, which was opened on one of the social media portals. This resulted in swift and professional exchange of information.

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

Human rights and child labour and forced labour

GRI 408-1; GRI 409-1

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

The Group has not been notified of any cases of discrimination based on gender, belief, religious orientation or any other aspects, and therefore there is no indication that any additional regulations should be implemented in that area. In 2018 and 2017 no actions were identified which could pose a significant risk that child labour or forced labour or compulsory labour may be used by the Group.

VII. Selected GRI ratios presented herein

Ratio no.	Ratio name	Comments/ Description	Page
Organisational profile			
GRI 102-2	Primary brands, products or services	[Business model]	6
GRI 102-4	Number of countries where the organisation operates, and names of countries	[Scope of activities] [Business model]	6
GRI 102-8	Total number of employees by employment type, employment contract and gender	[Structure of employment]	31
GRI 102-41	Percentage of total employees covered by collective bargaining agreements	0% of employees were covered by collective bargaining agreements	
GRI 102-9	Supply chain description	[Cooperation with suppliers]	9
GRI 102-12	Externally developed economic, environmental and social charters or principles to which the organisation subscribes or which it endorses	[Occupational health and safety] Safety Culture Declaration	39
Ethics			
GRI 102-16	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	[Ethics and prevention of corruption]	13
Market presence			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Pay equity]	35
GRI 202-1	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	[Pay equity]	35
Raw materials and materials			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Consumption of materials]	24
GRI 301-1	Materials/ Raw materials used by weight or volume	[Consumption of materials]	24
GRI 301-2	Percentage of materials used that are recycled input materials	[Consumption of materials]	24
Energy			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Energy consumption within the organisation]	27
GRI 302-1	Energy consumption within the organisation.	[Energy consumption within the organisation]	27
Biodiversity			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Biodiversity]	21
GRI 304-2	Description of significant impact of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	[Biodiversity]	21

Affluence and waste			
GRI 306-2	Total weight of waste by type and disposal method	[Waste]	29
Compliance with regulations			
GRI 307-1	Monetary value of fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	In 2019, as in the preceding years, the Company and Group Companies were not charged with any non-monetary sanctions for non-compliance by their employees with legal provisions of the environmental protection law.	
Employment			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management	[V. Social and employee aspects]	31
GRI 401-1	Total number and rates of new employee hires and employee turnover by age group, gender and region	[Employee turnover]	35
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	[V. Social and employee aspects]	31
Occupational health and safety			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Occupational health and safety]	39
GRI 403-1	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs	The OHS Committee represents 100% of employees.	
GRI 403-2	Identification of threats, risk assessment and investigation on accidents	[Occupational health and safety]	39
GRI 403-4	Occupational health and safety topics covered in formal agreements with trade unions	Company Regulations, signed and accepted also by the Chairpersons of Trade Unions. All changes in the Company Regulations must be accepted also by the Chairpersons of Trade Unions. Certain issues covered by the document: standards for personal protective equipment distribution and rules for their use; list of particularly arduous works or works harmful for women's health; list of particularly hazardous works and works associated with high physical or mental effort	
Education and training			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Training]	37
GRI 404-1	Average hours of training per year per employee by gender and employee category	[Training]	37
Diversity and equal opportunities			

GRI 405-1	Composition of management bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	[Structure of employment]	31
Equal remuneration for women and men			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Pay equity]	35
GRI 405-2	Ratio of basic salary and remuneration of women to men by employee category and by significant locations of operation	[Pay equity]	35
Labour practices grievance mechanisms			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Ethics and prevention of corruption]	13
Community			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Impact on local community]	45
GRI 413-2	Operations with significant actual and potential adverse impacts on local communities	[Biodiversity] [Mitigation of environmental impact of products and services] [Impact on local community]	21 29 45
Corruption			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Ethics and prevention of corruption]	13

Warsaw, 21 April 2020

Marcin Lewandowski	Paweł Nogalski
President of the Management Board	Vice-President of the Management Board
Arkadiusz Arciszewski	Aldas Rusevičius
Vice-President of the Management Board	Vice-President of the Management Board
Robert Sobków	Adam Stolarz
Member of the Management Board	Member of the Management Board

TRAKCJA
CAPITAL GROUP

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR

ENDED 31 DECEMBER 2019

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

APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The Management Board of Trakcja PRKiI S.A. approved the consolidated annual financial statements of Trakcja Capital Group for the period from 1 January 2019 to 31 December 2019.

The consolidated annual financial statements for the period from 1 January 2019 to 31 December 2019 were prepared in accordance with the International Financial Reporting Standards ("IFRSs") approved by the European Union, published and applicable as at 31 December 2019. Information included herein is presented in the following sequence:

1. Consolidated income statement for the period from 1 January 2019 to 31 December 2019, showing a net loss of PLN **285,048** thousand.
2. Consolidated statement of comprehensive income for the period from 1 January 2019 to 31 December 2019, showing negative total comprehensive income of PLN **287,028** thousand.
3. Consolidated balance sheet as at 31 December 2019, showing the total assets and total equity and liabilities of PLN **1,484,320** thousand.
4. Consolidated statement of cash flows for the period from 1 January 2019 to 31 December 2019, showing a decrease in net cash flows by PLN **9,214** thousand.
5. Consolidated statement of changes in equity for the period from 1 January 2019 to 31 December 2019, showing a decrease in consolidated equity by PLN **228,896** thousand.
6. Notes.

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

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

Marcin Lewandowski
President of the Management Board

Paweł Nogalski
Vice-President of the Management Board

Arkadiusz Arciszewski
Vice-President of the Management Board

Aldas Rusevičius
Vice-President of the Management Board

Robert Sobków
Member of the Management Board

Adam Stolarz
Member of the Management Board

Warsaw, April 21, 2020

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(figures in PLN '000, unless stated otherwise)

CONSOLIDATED INCOME STATEMENT

	Note	1.01.2019 - 31.12.2019 *Audited*	1.01.2018 - 31.12.2018 *Audited*
Continued operations			
Sales revenue	13	1 440 774	1 560 648
Cost of goods sold	14	(1 509 015)	(1 644 890)
Gross profit (loss) on sales		**(68 241)**	**(84 242)**
Cost of sales, marketing and distribution	14	(5 568)	(5 936)
General and administrative costs	14	(66 882)	(58 329)
Other operating revenues	15	6 695	58 115
Other operating costs	16	(16 212)	(2 457)
Goodwill impairment	24	(138 182)	(24 243)
Operating profit (loss)		**(288 390)**	**(117 092)**
Financial revenues	17	3 941	4 153
Financial costs	18	(28 920)	(14 465)
Gross profit (loss)		**(313 369)**	**(127 404)**
Income tax	19	28 321	17 232
Net profit from continued operation		**(285 048)**	**(110 172)**
Net profit for the period		**(285 048)**	**(110 172)**
Attributable to:			
Shareholders of Parent entity		(285 430)	(111 006)
Non-controlling interest		382	834

Profit per share attributable to shareholders in the period (PLN per share)

Basic	21	(5,24)	(2,16)
Diluted	21	(5,24)	(2,16)

(figures in PLN '000, unless stated otherwise)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	1.01.2019 - 31.12.2019 *Audited*	1.01.2018 - 31.12.2018 *Audited*
Net profit for the period		**(285 048)**	**(110 172)**
Other comprehensive income:			
Other net comprehensive income that will not be reclassified into profit or loss under certain conditions:		**1 367**	**(272)**
Profit from revaluation referred into revaluation reserve		1 273	-
Actuarial gains/(losses)	37	94	(272)
Other net comprehensive income that will be reclassified to profit or loss:		**(3 347)**	**8 878**
Foreign exchange differences on translation of foreign operations		(1 842)	8 657
Cash flow hedging instruments	40	(1 505)	221
Total other comprehensive income		**(1 980)**	**8 606**
Total comprehensive income for the period		**(287 028)**	**(101 566)**
Attributable to:			
Shareholders of Parent entity		(288 279)	(102 347)
Non-controlling interest		1 251	781

(figures in PLN '000, unless stated otherwise)

CONSOLIDATED BALANCE SHEET

	Note	31.12.2019 *Audited*	31.12.2018 *Audited*
ASSETS			
Non-current assets		**596 366**	**720 882**
Tangible non-current assets	22	286 228	297 285
Intangible assets	25	51 389	52 348
Goodwill from consolidation	24	168 983	308 782
Investment properties	23	22 447	20 445
Investments in other units		25	25
Other financial assets	26	6 202	4 511
Deferred tax assets	19.3	54 755	28 416
Long-term receivables		158	-
Prepayments	28	6 179	9 070
Current assets		**887 954**	**822 054**
Inventory	29	135 390	86 854
Trade and other receivables	30	399 749	328 890
Income tax receivables		-	3 900
Other financial assets	26	12 699	13 773
Cash and cash equivalents	31	107 473	116 687
Prepayments	28	16 574	13 313
Contracts with customers assets	33	211 032	206 887
Assets held for sale	34	5 037	51 750
TOTAL ASSETS		**1 484 320**	**1 542 936**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of Parent entity	36	**420 243**	**645 539**
Share capital		69 161	41 120
Share premium		340 561	309 984
Revaluation reserve		7 082	5 768
Other capital reserves		276 188	383 833
Retained earnings		(285 430)	(111 006)
Foreign exchange differences on translation of foreign operations		12 681	15 840
Non-controlling interest	36	**5 241**	**8 841**
Total equity		**425 484**	**654 380**
Long-term liabilities		**232 816**	**93 112**
Interest-bearing loans and borrowings	39	207 857	66 371
Provisions	37	14 093	13 004
Liabilities due to employee benefits	38	4 094	4 810
Provision for deferred tax	19.3	6 727	8 858
Derivative financial instruments	41	8	8
Other financial liabilities		37	61
Short-term liabilities		**826 020**	**795 444**
Interest-bearing loans and borrowings	39	153 790	132 559
Trade and other liabilities	42	408 766	407 341
Provisions	37	94 773	59 101
Liabilities due to employee benefits	38	13 574	16 572
Income tax liabilities		238	-
Other financial liabilities	39	123	-
Accruals	45	506	711
Contracts with customers liabilities	33	154 250	141 258
Liabilities of group to be classified as held for sale	34	-	37 902
Total equity and liabilities		**1 484 320**	**1 542 936**

(figures in PLN '000, unless stated otherwise)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	31.12.2019 Audited	31.12.2018 Audited
Cash flows from operating activities			
Gross profit from continued operations		**(313 369)**	**(127 404)**
Adjustments for:		**123 261**	**92 689**
Depreciation		38 076	31 407
FX differences		(431)	450
Net interest and dividends		13 124	8 605
Profit on investment activities		138 758	(30 165)
Change in receivables		(80 180)	47 860
Change in inventory		(52 077)	4 630
Change in liabilities, excluding loans and borrowings		26 607	81 005
Change in prepayments and accruals		(2 998)	(5 094)
Change in provisions		36 896	33 304
Change in settlements from contracts		10 178	(78 201)
Change in financial derivatives		1 752	(270)
Income tax paid		(2 571)	(1 933)
Other		(7 134)	(420)
Foreign exchange differences on translation of foreign operations		3 261	1 511
Net cash flows from operating activities		**(190 108)**	**(34 715)**
Cash flows from investment activities			
Sale (purchase) of intangible assets and tangible non-current assets		(13 577)	(30 790)
- acquisition		(15 125)	(32 275)
- sale		1 548	1 485
Sale (acquisition) of shares and stocks		13 857	(1 812)
- acquisition		(1 530)	(1 812)
- sprzedaż		15 387	-
Financial assets		4 114	636
- sold or repaid		21 976	9 014
- granted or acquired		(17 862)	(8 378)
Interest received		207	267
Net cash flows from investment activities		**4 601**	**(31 699)**
Cash flows from financial activities			
Proceeds from payment to capital of a subsidiary from holders of non-controlling interest		38 551	2 187
Proceeds on account of taken borrowings and loans		255 028	112 953
Repayment of borrowings and loans		(79 184)	(14 338)
Dividends paid to shareholders of parent company		-	(5 140)
Dividend paid to non-controlling interests		(3)	(220)
Interest paid		(14 028)	(9 298)
Payment of liabilities under financial lease agreements		(24 055)	(12 652)
Other		(16)	43
Net cash flows from financial activities		**176 293**	**73 535**
Total net cash flows		**(9 214)**	**7 121**
Cash at start of period		**116 675**	**112 172**
Assets held for sale - transfer	34	-	(2 618)
Cash at end of period	**31 32**	**107 461**	**116 675**

**Cash excluded from the statement of cash flows as at March 31, 2018 and 2019 comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.*

(figures in PLN '000, unless stated otherwise)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of Parent entity										
	Share capital	Share premium	Revaluation reserve	Other reserve capitals			Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interest	Total equity
				Hedging instruments	Actuarial gains/ (losses)	Results from previous years					
As at 1.01.2019 Audited	**41 120**	**309 984**	**5 768**	**(3 159)**	**(1 244)**	**388 236**	**15 840**	**(111 006)**	**645 539**	**8 841**	**654 380**
Net profit for the period	-	-	-	-	-	-	-	(285 430)	(285 430)	382	(285 048)
Other comprehensive income	-	-	1 273	(1 476)	92	-	(2 738)	-	(2 849)	869	(1 980)
Total comprehensive income	**-**	**-**	**1 273**	**(1 476)**	**92**	**-**	**(2 738)**	**(285 430)**	**(288 279)**	**1 251**	**(287 028)**
Distribution of profit	-	-	-	-	-	(111 006)	-	111 006	-	-	-
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(93)	(93)
Issue of shares	28 041	30 577	-	-	-	-	-	-	58 618	-	58 618
Acquisition of shares in a subsidiary	-	-	-	-	-	4 634	-	-	4 634	(4 758)	(124)
Deconsolidation of subsidiaries	-	-	-	-	-	-	(421)	-	(421)	-	(421)
Other	-	-	41	-	-	111	-	-	152	-	152
As at 31.12.2019 Audited	**69 161**	**340 561**	**7 082**	**(4 635)**	**(1 152)**	**281 975**	**12 681**	**(285 430)**	**420 243**	**5 241**	**425 484**

(figures in PLN '000, unless stated otherwise)

	Equity attributable to shareholders of Parent entity										
	Share capital	**Share premium**	**Revaluation reserve**	**Other reserve capitals**			**Foreign exchange differences on translation of foreign operations**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
				Hedging instruments	**Actuarial gains/ (losses)**	**Results from previous years**					
As at 1.01.2018 Audited	**41 120**	**309 984**	**5 765**	**(3 340)**	**(975)**	**365 903**	**7 093**	**31 429**	**756 979**	**5 055**	**762 034**
IFRS 9 implementation	-	-	-	-	-	(3 418)	-	-	(3 418)	-	(3 418)
As at 1.01.2018 after adjustments	**41 120**	**309 984**	**5 765**	**(3 340)**	**(975)**	**362 485**	**7 093**	**31 429**	**753 561**	**5 055**	**758 616**
Net profit for the period	-	-	-	-	-	-	-	(111 006)	(111 006)	834	(110 172)
Other comprehensive income	-	-	-	181	(269)	-	8 747	-	8 659	(53)	8 606
Total comprehensive income	**-**	**-**	**-**	**181**	**(269)**	**-**	**8 747**	**(111 006)**	**(102 347)**	**781**	**(101 566)**
Distribution of profit	-	-	-	-	-	26 289	-	(26 289)	-	-	-
Payment of dividends to parent undertaking shareholders	-	-	-	-	-	-	-	(5 140)	(5 140)	-	(5 140)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(220)	(220)
Acquisition of shares in a subsidiary	-	-	-	-	-	(625)	-	-	(625)	(1 202)	(1 827)
Acquisition of shares in a subsidiary	-	-	-	-	-	-	-	-	-	4 274	4 274
Other	-	-	3	-	-	87	-	-	90	153	243
As at 31.12.2018 Audited	**41 120**	**309 984**	**5 768**	**(3 159)**	**(1 244)**	**388 236**	**15 840**	**(111 006)**	**645 539**	**8 841**	**654 380**

NOTES

1. General information

These consolidated financial statements of the Group cover the financial year ended December 31, 2018 and the comparable data.

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

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

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

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

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

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

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

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

The registered office of the Parent Company is located at al. Jerozolimskie 100 in Warsaw.

Both the Parent Company and the entities that are members of the Group are established for an indefinite period of time.

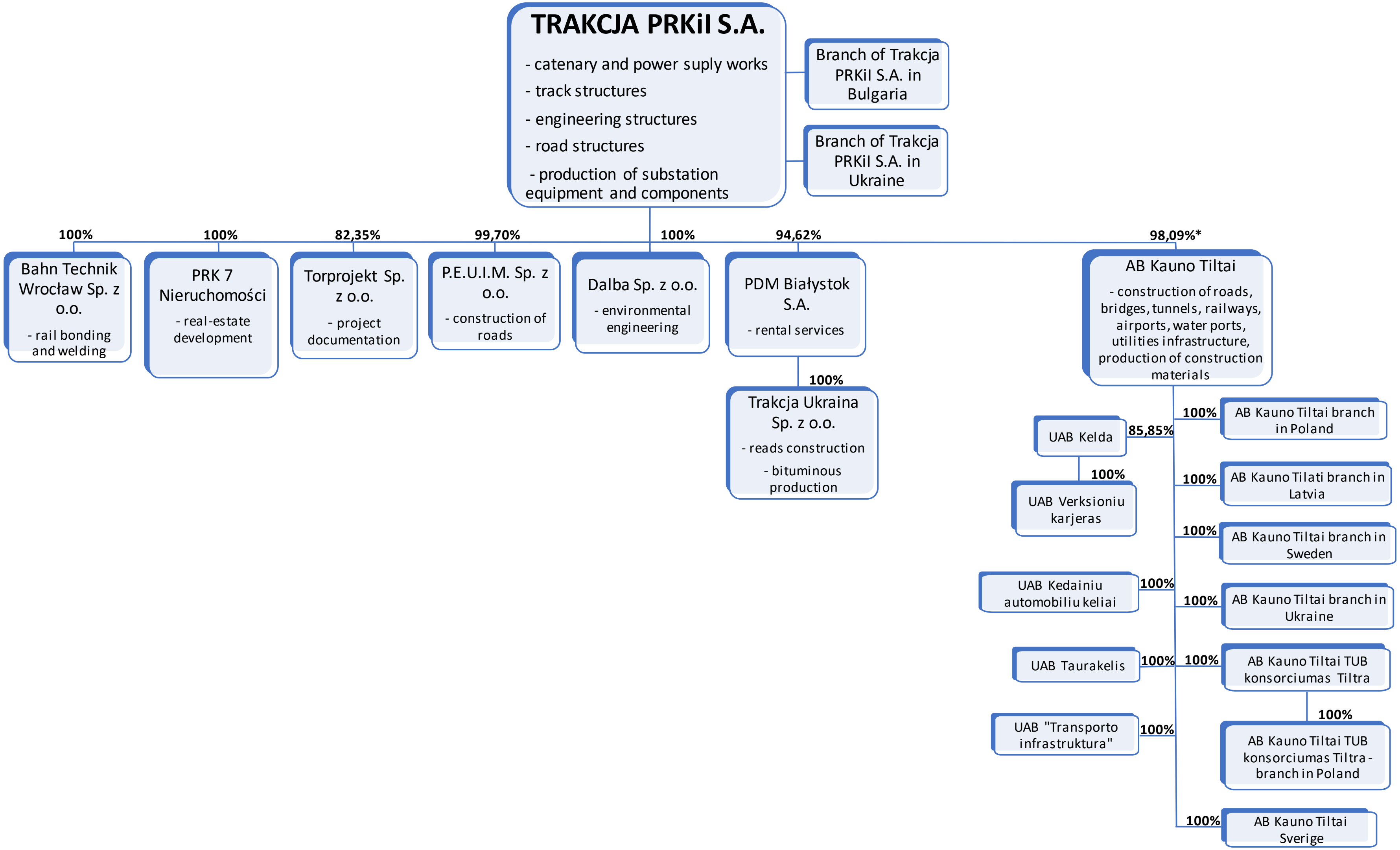
According to the Articles of Association, the Parent Company renders specialist construction and assembly services within the scope of railway and tram lines electrification. The Company specialises in the following types of activity:

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

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

2. Composition of the Group

Trakcja PRKiI is the Parent Company of Trakcja Group. The Group's composition and structure as at 31 December 2019 is presented in the diagram below.



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

As at December 31, 2019 the Group consists of the Parent Company (Trakcja PRKiI) and its subsidiaries.

Fully-consolidated entities in the consolidated financial statement of Trakcja Group:

Bahn Technik Wrocław Sp. z o.o.

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

The BTW's business activities include thermite welding, repairing and renovating turnouts, renovating railway and tramway crossings, providing pre-stressed, glued insulation joints type S, welding tram and railway tracks, tamping and profiling railway and tramway tracks, and selling Perker SR rail lubrication systems. In addition, since December 2015, BTW has had a GOTTWALD crane and a DGS track stabilizer. BTW renders its services both in Poland and abroad.

PRK 7 Nieruchomości Sp. z o.o.

PRK 7 Nieruchomości Sp. z o.o. carries out real estate development activities and has a track record of several successful investment projects, which include, in particular, Lazurowe Osiedle residential project in Warsaw (stage I and II) and the project at ul. Oliwska in Warsaw, as well as the construction of five multi-family residential buildings in Warsaw at ul. Pełczyńskiego. For over a year, the company has been carrying out construction works – capacity construction works. For over a year, the company has been carrying out construction works – capacity construction works. The Company carries out the renovation of the library of the University of Warsaw. In 2019, she signed a new contract for the construction of a school in Ząbki.

Torprojekt Sp. z o.o.

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

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

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

Dalba Sp. z o.o.

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

PDM Białystok S.A.

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

Establishment of PRKiI S.A. in Bulgaria

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

Establishment of Trakcja PRKiI S.A. in Ukraine

On March 3, 2017 Trakcja PRKiI S.A. opened an establishment in Ukraine.

Trakcja Ukraina Sp. z o.o.

PDM Białystok S.A. holds 100% of shares in Trakcja Ukraina Sp. z o.o. On October 25, 2019 PDM Białystok S.A. acquired 49.9% shares in Trakcja Ukraina Sp. z o.o., and became its sole shareholder.

AB Kauno Tiltai Group

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

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

simultaneously the parent company in AB Kauno Tiltai Group.

AB Kauno Tiltai Group is composed of the following entities:

- UAB Kelda – a subsidiary with its 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 Tauragė (Lithuania);
- UAB Kedainiu Automobiliu Keliai – a subsidiary with its registered office in Kėdainiai (Lithuania);
- TUB Konsorciumas Tiltra – a subsidiary with its registered office in Kaunas (Lithuania);
- 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 Ukraine – a branch of AB Kauno Tiltai with its registered office in Kiev (Ukraine);
- 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);
- AB Kauno Tiltai TUB konsorciumas Tiltra – branch in Poland

- UAB "Transporto infrastruktura" – a subsidiary with its registered office in Vilnius (Lithuania).

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

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

On 30 September, the agreement concluded by AB Kauno Tiltai, a member of the Issuer's Capital Group, with its registered office in Lithuania, was implemented. The agreement concerns:

- sale of all shares in UAB Pletros investicijos with its registered office in Lithuania (the "PIN"), wholly owned by AB Kauno Tiltai;
- transfer of rights and obligations, including the right to the receivables, of the Loan Agreement made between AB Kauno Tiltai and the PIN.

On 25 October 2019, a Group company, Trakcja Ukraina Sp. z o.o., sold 100% of shares in Trakcja Asfalt Sp. z o.o. and all its shares, i.e. 99%, in Trakcja Infra Sp. z o.o.

On 8 June 2018, a Group company, PDM Białystok S.A., acquired 49.9% of shares in Trakcja Ukraina Sp. z o.o., as a result of which it holds 100% of shares in that company.

Apart from the above, there were no changes in the structure of the Trakcja Group in 2019.

(figures in PLN '000, unless stated otherwise)

Sale of 100% of shares in UAB Pletros Investicjios

Analysis of assets and liabilities of UAB Pletros investicijos and UAB Palangos aplinkkelis (a subsidiary of PIN), over which control has been lost:

	30.09.2019
ASSETS	
Non-current assets	**40 217**
Other financial assets	39 154
Deferred tax assets	1 063
Current assets	**14 330**
Trade and other receivables	584
Income tax receivables	5
Other financial assets	10 542
Cash and cash equivalents	3 168
Accruals	31
Equity and liabilities	
Long-term liabilities	**37 324**
Interest-bearing loans and borrowings	31 274
Derivative financial instruments	6 050
Short-term liabilities	**7 260**
Interest-bearing loans and borrowings	1 007
Trade and other liabilities	5 224
Derivative financial instruments	1 007
Provisions	22
Net assets sold	**9 963**
Result on the sale of a subsidiary included in the consolidated income statement	
Sale price	12 990
Net assets sold	(9 963)
Non-controlling shares	(66)
Reversal of exchange differences from the translation of foreign entities	421
Profit (loss) on the sale of a subsidiary	**3 382**

(figures in PLN '000, unless stated otherwise)

Sale of 100% of shares in Trakcja Asfalt Sp. z o.o. and 99% of shares in Trakcja Infra Sp. z o.o.

Analysis of assets and liabilities of Trakcja Asfalt and Trakcja Infra, over which control has been lost:

	25.10.2019
ASSETS	
Non-current assets	**908**
Tangible non-current assets	903
Intangible assets	5
Current assets	**20 839**
Inventory	3 587
Trade and other receivables	15 719
Cash and cash equivalents	1 533
TOTAL ASSETS	**21 747**
Equity and liabilities	
Long-term liabilities	**-**
Short-term liabilities	**20 542**
Interest-bearing loans and borrowings	1 562
Trade and other liabilities	18 373
Provisions	10
Liabilities due to employee benefits	107
Tax liabilities	398
Other financial liabilities	92
TOTAL EQUITY AND LIABILITIES	**21 747**
Net assets sold	**1 205**
Result on the sale of a subsidiary included in the consolidated income statement	
Sale price	3
Net assets sold	(1 205)
Profit (loss) on the sale of a subsidiary	**(1 202)**

4. Parent Company's Management Board

As at 31 December 2019 the Parent Company's Management Board was composed of the following members:

- Marcin Lewandowski - President of the Management Board;
- Paweł Nogalski - Vice-President of the Management Board;
- Arkadiusz Arciszewski - Vice-President of the Management Board;
- Aldas Rusevičius - Vice-President of the Management Board;
- Robert Sobków - Member of the Management Board;
- Adam Stolarz - Member of the Management Board.

On 27 September 2019, Mr Marek Kacprzak and Mr Maciej Sobczyk tendered their resignations as a Management Board Members, with effect as of 30 September 2019.

On October 10, 2019 the Company' Supervisory Board adopted a resolution naming Mr. Arkadiusz Arciszewski as Vice-President of the Management Board with effect from October 10, 2019.

On December 4, 2019 the Company's shareholder, Agencja Rozwoju Przemysłu S.A., declared in writing that Mr. Adam Stolarz and Mr. Robert Sobków were named as members of the Management Board.

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

5. Parent's Company Supervisory Board

As at 31 December 2019 the Parent Company's Supervisory Board was composed of the following members:

- Dominik Radziwiłł - Chairman of the Supervisory Board;
- Jorge Miarnau Montserrat - Vice-Chairman of the Supervisory Board;
- Michał Hulbój - Vice-Chairman of the Supervisory Board;
- Krzysztof Tenerowicz - Member of the Supervisory Board;
- Klaudia Budzisz - Member of the Supervisory Board;
- Miquel Llevat Vallespinosa - Member of the Supervisory Board;
- Fernando Perea Samarra - Member of the Supervisory Board.

On December 4, 2019 the Company was notified of resignation by Mr. Wojciech Napiórkowski from the position on the Company's Supervisory Board as at December 4, 2019 and the shareholder, Spółka Agencja Rozwoju Przemysłu S.A., declared in writing that Ms. Klaudia Budzisz was named as a member of the Company's Supervisory Board.

On December 20, 2019 the Company was notified of resignation by Mr. Łukasz Rozdeiczer-Kryszkowski from the position on the Company's Supervisory Board as at December 20, 2019 and the shareholder, Spółka Agencja Rozwoju Przemysłu S.A., declared in writing that Mr. Krzysztof Tenerowicz was named as a member of the Company's Supervisory Board.

After the balance sheet date there have been no changes to the composition of the Supervisory Board.

6. Approval of the consolidated annual financial statements for publication

These consolidated annual financial statements were approved for publication by the Management Board of the Parent Company on 21 April 2020.

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

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

Where a given transaction does not fall within the scope of any standard or interpretation, the Management Board, guided by its subjective judgment, determines and applies accounting policies that ensure that the financial statements contain appropriate and reliable information and:

- give a clear, true and fair view of the Group's assets, its financial condition, results of operations and cash flows,

- reflect the economic substance of transactions,

- are objective,

- conform to the principles of prudent valuation and

- are complete in all material respects.

The professional judgement of the management, assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that carry a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities in the next financial year are discussed below.

7.1. Professional judgement

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is determined by means of appropriate valuation methods. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgement. The underlying assumptions are presented in Note 46. In 2019, the Company did not change the measurement method for financial instruments measured at fair value. The carrying amounts of financial assets and liabilities are close to their fair values.

Investment property

The Group classifies properties into the category of property, plant and equipment, inventories or investment properties depending on their intended use by the Group.

Allocation of goodwill to cash generating units

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

Control over related entities

The parent controls a subsidiary when it is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Parent Company's Management Board states that it exercises control over individual entities based on the following:

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

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

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

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

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

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

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

Classification of joint contractual arrangements

Based on an analysis of an agreement, the Group verifies whether it exercises joint control and determines the type of joint arrangement in which it is involved by considering its rights and obligations under a given arrangement and the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangement and other facts and circumstances.

7.2. Uncertainty of estimates and assumptions

Determining the timing of satisfaction of performance obligations

Sale of goods

In order to indicate the precise moment of transfer of control, the Group considers each time whether:

a. the Group has a present right to payment for the asset,

b. the customer has legal title to the asset,

c. the Group has transferred physical possession of the asset,

d. the customer has the significant risks and rewards of ownership of the asset,

e. the customer has accepted the asset.

The moment of the transfer of control is the same as the moment when the significant risk and rewards of ownership have been transferred. In the absence of specific terms and conditions between the parties (e.g. by means of Incoterms), the revenue from the sale is recognised at the moment of delivery to the customer, in which case the customer is in physical possession of the goods and thus the legal title is transferred.

Sale of construction services

Performance obligations related to the implementation of long-term construction contracts are satisfied over time in connection with the fact that the customer controls an asset which is created or enhanced by the entity throughout the implementation period. In the opinion of the Group, execution of construction work on land owned by the principal indicates that it controls the asset being created on an ongoing basis.

Determining the transaction price and the amounts allocated to performance obligations

Variable consideration

Agreements for long-term construction services specify variable remuneration which depends on the completion dates and achieved parameters, including penalties and bonuses that may have an effect on the initial amount of remuneration stipulated in the agreement. For the purpose of determining a transaction price, Group assesses facts and circumstances that have an impact on the likelihood of occurrence of each scenario, including the obligation to pay a penalty or the right to receive a bonus. In the case of contracts for which the probability of one scenario is significantly higher than others, then the consideration determined according to the scenario in question is reflected in the transaction price.

Facts and circumstances determining the probability of occurrence of individual scenarios are reviewed at least at the end of each reporting period. Changes in the transaction price, if any, are recognised prospectively.

Significant financing component

The Group has decided to use the practical expedient and does not adjust the transaction price by the impact of a change in the time value of money in the case of contracts for which the Group expects, at contract inception, that the period between the moment when the Group transfers the good or service and the moment of payment will not exceed one year.

The transaction price of contracts for which the Group expects at contract inception that the period between the moment when the Group transfers goods or services and the moment of payment will be longer than one year is adjusted by a significant financing component. For advance payments, the Group recognises interest expense, whereas for payment terms longer than 12 months, the Group recognises interest income.

In order to estimate the significant financing component, it is necessary to determine the discount rate. The Group uses rates that would be reflected in a separate financing transaction between the entity and its customer at contract inception. In order to reflect the credit characteristics of the party that receives financing, various discount rates are applied to transactions in which the Group acts as the party that provides financing and the party that receives financing.

Discount rates are reviewed at least as at the date of preparation of the financial statements and are applied to contracts concluded after the date on which the rate was updated.

Separation of non-lease components

The Group assesses whether the contract includes lease and non-lease components. Non-lease components, such as maintenance fees in contracts for lease of premises, or service maintenance of components of assets constituting the subject of the contract, are then separated from contracts that included lease and non-lease components. However if the contract covers non-lease elements which the Group deems insignificant in the light of the entire contract, the Group shall apply a simplification consisting in joint treatment of lease and non-lease elements as one lease element.

Defining the lease term

In defining the lease term, the Group assesses all material facts and events which affect the existence of economic triggers to use the option of prolongation, or not using the option of termination. The assessment is made in case of a significant event or a significant change in circumstances affecting the assessment.

Period of use of asset components due to the right of use

The estimated period of use of assets related with the right of use is determined in the same manner as in the case of tangible fixed assets.

Provisions for additional works

Provisions for additional works are estimated based on the knowledge of the construction site (contract) directors with regard to the required or potential performance of additional works for the benefit of the contracting entity, in order to fulfil warranty obligations. The largest companies that are members of Trakcja Group are obliged to grant warranty for their services. The provision for additional works depends on the segment in which the companies operate and is based on the Group's historical data. This value is assessed on an individual basis and may be increased or decreased as appropriate. Any changes in these assumptions will affect the amount of the provisions. The carrying amount of the provisions for additional works as at 31 December 2019 is presented in Note 37 of the Notes.

Provisions for contractual penalties

The Group recognises provisions for contractual penalties in relation to any contracts under completion in the amounts in which they may and are likely to be imposed. Provisions are recognised based on the documentation regarding the contract completion and on the opinion of lawyers who participate in the ongoing negotiations and estimate the Group's potential future liabilities on the basis of their course. The carrying amount of the provisions for contractual penalties as at 31 December 2019 is presented in Note 37 of the Notes.

Measurement of employee benefit liabilities

Employee benefit liabilities for retirement benefits and jubilee bonuses in the current period are estimated on the basis of actuarial methods which take into account amendments to the remuneration regulations made on 3 June 2017. The amount of liability depends on various factors which are used as assumptions in the actuarial method. Key assumptions for determining the amount of liability are the discount rate and the average expected increase in wages. The assumptions made for this purpose and the carrying amount of employee benefit liabilities as at 31 December 2019 are presented in Note 38 of the Notes.

Deferred tax asset

The Group recognises deferred tax asset based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. If taxable income deteriorates in the future, this assumption may prove invalid. The Parent Company's Management Board reviews its estimates regarding the likelihood of recovering deferred tax assets taking into account changes in the factors on which such estimates were based, new information and past experience. The likelihood that deferred tax assets will be utilised against future taxable profits is based on budgets of the Group companies. Deferred tax assets are recognised by the Group companies to the extent that it is probable that taxable profit will be generated which will enable the deductible temporary differences to be offset. The Group's companies, which generated losses in the past and whose financial forecast does not project future taxable profits that would allow for negative temporary differences to be deducted, do not recognise any deferred tax assets in their books. The carrying amount of the deferred tax assets as at 31 December 2019 is presented in Note 19.3 of the Notes.

Amortisation and depreciation rates

Depreciation/amortisation rates are set based on the anticipated useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

Investment property

Investment property is measured at fair value. The value of investment properties is determined by independent appraisers who hold valid authorisations to perform such valuations. In selecting the approach and technique thereof, the Company followed the principles set forth in IFRS 13 and in the Real Estate Management Act and also in the Regulation of the Council of Ministers on the detailed principles of property appraisal and rules and method for preparing appraisal reports. Fair value of investment property was measured by way of applying measurement techniques that require a maximum use of observable data. The detailed information and carrying amount of the investment property as at 31 December 2019 is provided in Note 23 of the Notes.

Impairment of goodwill

Pursuant to IAS 36, cash-generating units to which goodwill has been allocated are tested for impairment annually by the Parent Company's Management Board. The tests carried out require estimation of the value in use of the cash-generating units ("CGU") based on their future cash flows, which were subsequently discounted to their present value using a discount rate. Goodwill was tested for impairment as at 31 December 2019. As a result of the tests performed as at 31 December 2019, an impairment loss on goodwill was recognised in the amount of PLN 138,182 thousand. Assumptions and essential information on the tests performed are provided in Note 24 of the Notes.

Impairment of inventories

The Management Board assesses whether there are any indications that inventories may be impaired, in accordance with Note 9.13. The determination of impairment requires the estimation of the net realisable value of inventories that have become obsolete or are no longer suitable for use. For additional information, see Note 29.

Expected credit loss and impairment of trade and other receivables

Pursuant to IFRS 9, the Group recognises a loss allowance for expected credit losses on trade and other receivables. For trade receivables, the Group applies a simplified approach for receivables analysed on a collective basis – for these receivables, an allowance for lifetime expected credit losses is calculated, regardless of the analysis of changes in credit risk. For other receivables and financial instruments held, the Group recognises an allowance for 12-month expected credit losses if the credit risk is low or has not increased significantly since initial recognition of receivables in the balance sheet and at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. The change in the impairment allowance for trade and other receivables is presented in Note 30.

Fair value measurement and measurement procedures

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

Information on valuation techniques and inputs used to measure the fair value of particular assets and liabilities is disclosed in Notes 23, 46 and 48.

8. Basis for preparation of the consolidated annual financial statements

The consolidated annual financial statements were prepared based on the historical cost approach, except with respect to investment property and derivatives which are measured at fair value.

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

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

These consolidated annual financial statements have been prepared on the assumption that the Company would continue as a going concern in the foreseeable future. As at the date of authorisation of these consolidated financial statements, there are no circumstances which would indicate a threat to the Group continuing as a going concern. For details, see Note 64 to these financial statements.

Moreover, for the purpose of financial reporting, fair value measurements are categorised into three levels depending on the degree to which the inputs used to measure fair value are observable and their significance to the entire measurement. These levels are as follows:

- Level 1: Level 1 inputs are (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2: Level 2 inputs are inputs other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly,

- Level 3: Level 3 inputs are unobservable inputs for the asset or liability.

8.1. Statement of compliance

The consolidated annual financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRSs") approved by the European Union, published and applicable as at 31 December 2019.

Any standards other than those that were in force as at 31 December 2019 and were approved by the EU as at the preparation hereof are described in Note 10.

The effect of application of new accounting standards and changes in accounting policy is described in Note 10.

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

8.2. Measurement currency and reporting currency

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

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

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

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

- the Ukrainian hryvnia (UAH) for the establishment of Trakcja PRKiI and, a Branch of AB Kauno Tiltai in Ukraine and other companies with their registered offices in Ukraine.

9. Significant accounting principles

9.1. Principles of consolidation

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

Subsidiaries are consolidated from the date when the Group obtains control of them and cease to be consolidated when the control is lost. If the Parent Company loses control of a subsidiary, the consolidated financial statements account for the subsidiary's results for such part of the reporting year in which control was held by the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the Parent Company, using uniform accounting principles applied to economic events and transactions of a similar nature.

All the Group's members, except for companies domiciled in Ukraine, Bahn Technik Wrocław Sp. z o.o., Torprojekt Sp. z o.o., Dalba Sp. z o.o. and PDM Białystok S.A. keep their accounts in accordance with the International Accounting Standards. Bahn Technik Wrocław Sp. z o.o., Torprojekt Sp. z o.o., Dalba Sp. z o.o. and

(figures in PLN '000, unless stated otherwise)

PDM Białystok S.A. keep their accounts in accordance with the accounting policies defined in the Accounting Act of 29 September 1994, as amended (the "Act"), and secondary legislation issued thereunder (the "Polish Accounting Standards" or "PAS"). Their financial figures are restated for the Group's purposes.

All balances and transactions between Group entities, including unrealized profits resulting from transactions within the Group, have been fully eliminated. Unrealized losses are eliminated unless they are evidence of impairment.

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

9.2. Foreign currency translation

The Polish złoty is the functional currency of the Parent Company.

Transactions denominated in foreign currencies are translated by the Group companies into their functional currencies at a relevant exchange rate effective for the transaction date.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the closing rate. Currency translation differences are recognised under finance income or costs, as appropriate.

Non-monetary assets and liabilities recognised at historical cost in a foreign currency are disclosed at the historical exchange rate from the transaction date. Non-monetary assets and liabilities recognised at fair value in a foreign currency are translated at the exchange rate effective on the date of determining the fair value.

The following exchange rates were used to determine the carrying amounts:

Exchange rate on the reporting date:	31.12.2019	31.12.2018
PLN/USD	3,7977	3,7597
PLN/EUR	4,2585	4,3000
PLN/SEK	0,4073	0,4201
PLN/BGN	2,1773	2,1985
PLN/UAH	0,1602	0,1357

The average exchange rate, calculated as the arithmetic average of the rates prevailing on the last day of each month during the period:	31.12.2019	31.12.2018
PLN/USD	3,8440	3,6227
PLN/EUR	4,3018	4,2669
PLN/SEK	0,4064	0,4147
PLN/BGN	2,1995	2,1816
PLN/UAH	0,1502	0,1330

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

- relevant balance sheet items – at the mid-rate quoted by the National Bank of Poland for the balance sheet date, except for items in equity which are translated into PLN at the historical exchange rate from the date of acquisition of control of a foreign operation;

- relevant items of the income statement and the statement of comprehensive income – at the exchange rate being the arithmetic mean of the monthly mid-rates as quoted by the National Bank of Poland for the reporting period;
- relevant items of the statement of cash flows (investing and financing activities) – at the exchange rate being the arithmetic mean of the monthly mid-rates as quoted by the National Bank of Poland for the reporting period. Foreign exchange gains or losses on such translation are recognised in the statement of cash flows as "Exchange differences on translation of foreign operations".

Foreign exchange gains or losses on such translation are recognised directly in the equity as a separate item, i.e. Exchange differences on translation of foreign operations.

Upon disposal of a foreign operation, translation differences accumulated in the equity and relating to that operation are transferred from equity to the income statement (as a reclassification adjustment) when the gain or loss on disposal of such operation is recognised.

9.3. Tangible non-current assets

9.3.1. Non-current assets

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

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

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

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

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

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

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

- hardware	3 years or a contractual term,
- tools and instrumentation	5 years,
- ground containers	22 years,
- boilers and furnaces	from 14 to 25 years,
- metalwork machinery	from 5 to 14 years,

(figures in PLN '000, unless stated otherwise)

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

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

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

9.3.2. Non-current assets under construction

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

Any non-current assets under construction which are discontinued or intended for disposal or sale are measured at the amount no higher than their realisable net sales price.

Non-current assets under construction are depreciated no earlier than after their construction has been completed and they have been put into operation.

Any cost of refurbishing is recognised in the carrying amount of the tangible non-current assets, if the recognition criteria are met.

9.3.3. Leases

The accounting policy in the area of lease agreement recognition, in accordance with the new standard applicable from 1 January 2019 onwards, has been described in Note 10. Lease payments are apportioned between financial costs and a reduction in the outstanding balance of the lease liability in such a manner as to produce a fixed interest rate on the remaining balance of the liability. Financial costs are recognised directly in profit or loss.

Non-current assets held under finance leases are depreciated according to the method determined by the Company for its own non-current assets. However, if the transfer of the ownership title is not certain, non-current assets held under finance leases are depreciated during their expected useful life or their lease term, whichever is shorter.

The Group holds the right of perpetual usufruct of land. In keeping with IFRS 16 Lease, the right of perpetual usufruct of land is also classified as a finance lease.

The right of perpetual usufruct of land is recognised as a liability measured using the perpetuity method, including any lease payments made at the commencement date or before that date (also any payment for the acquisition of the right concerned on the market). After the initial recognition, the right of perpetual usufruct of land, excluding any right of perpetual usufruct of land measured using the perpetuity method, shall be measured at cost, less any accumulated amortisation and accumulated impairment losses, adjusted by any remeasurement of the lease liability.

The right of perpetual usufruct of land is depreciated over the period for which it has been granted. This period is 99 years.

9.4. Impairment of non-financial assets

As at the balance sheet date, the Group is required to assess whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired or that an annual impairment test needs to be conducted in order to check whether an asset has been impaired, the Group calculates the asset's recoverable amount.

The asset's recoverable value corresponds to the higher of the asset's or cash-generating unit's fair value less any selling costs or the asset's or cash-generating unit's value in use. It is determined for individual assets unless a given asset independently generates no cash flows which are mostly separate from those generated by other assets or a group of assets. If the carrying amount of an asset is higher than its recoverable value, the asset is impaired and an appropriate impairment loss is recognised. For the value in use to be determined, the forecast cash flows are discounted to their present value using a discount rate before tax, which reflects the present market estimation of the value of money in time and a risk typical of a given asset. Impairment losses on assets used in the ongoing business activities are recognised in other operating costs.

As at each balance sheet date, the Group decides whether any circumstances occurred indicating that an impairment loss on a given asset recognised in previous periods is to be kept or whether it should be decreased. If appropriate circumstances occurred, the Group estimates the recoverable value of such an asset. The previously recognised impairment loss is reversed if, and only if, the estimated value used for determining the recoverable value of a given asset has changed since its recognition. In such an event, the carrying amount of a given asset is increased up to its recoverable value. The increased amount cannot exceed the asset's carrying amount, which would be determined (less any accumulated depreciation or amortisation), if in the previous years the asset concerned was not impaired at all. The reversal of the impairment loss on a given asset is recognised as revenue directly in the income statement, unless such an asset is recognised in the revaluated value, then the reversal is recognised as an increase in the revaluation reserve. Upon the reversal of the impairment loss, in the following periods the amortisation/depreciation amount is adjusted in such a way as to allow for the verified carrying amount of a given asset less its residual value to be amortised/depreciated on a regular basis over the remain useful life of such an asset.

9.5. Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of a qualifying asset are capitalised in the cost of the asset in accordance with IAS 23. Any other borrowing costs are recognised in profit or loss when incurred.

9.6. Assets held for sale

This group includes tangible non-current assets and investment properties, if their carrying amount is recovered mainly through their sale, and not through their further use. Assets held for sale are measured by the Group at the lower of the carrying amount and fair value less any costs to sell, and their depreciation is discontinued. Assets held for sale are available for immediate sale in their current state, under the conditions that typically apply to the sale of such assets, their sale is highly likely and their buyer is actively searched for by the Company's management.

Assets classified as held for sale are disclosed in the balance sheet separately from other assets.

9.7. Investment properties

The Group's investment properties include buildings and land held to earn rentals or for capital appreciation.

Investment properties acquired in separate transactions are initially measured at cost including transaction costs.

Otherwise, e.g. when acquired as a result of the acquisition of another business entity, they are initially measured at their fair value.

After their initial recognition all investment properties are recognised at their fair value.

The Group estimates the value of investment properties as at December 31 each year on the basis of valuations carried out at such a date by independent experts. Throughout the year, as at the consecutive balance sheet dates, i.e. March 31, June 30 and September 30, the Group assesses whether there are any indications that the fair value may need to be changed.

Fair value can be determined by way of:

- updating it on the basis of valuation carried out by an independent expert with recognised and suitable professional qualifications and experience in evaluating properties with similar location and characteristics;
- analysing data derived from the active market (market prices) of similar investment properties with similar location and in similar condition.

Assets are transferred to and from investment properties only if their intended manner of use is changed.

Any change in fair value of the investment properties during a given year is recognised in profit or loss. If the Group's asset is transferred to the investment properties, the difference between its fair value and its carrying amount is recognised in revaluation reserve, and any further changes thereto are recognised in profit or loss.

If the entity may determine the fair value of an investment property previously measured at cost during its construction, it measures such a property at its fair value. Once the construction of the investment property measured at fair value is completed, the difference between the fair value of such a property on that day and its earlier carrying amount is recognised in profit or loss.

9.8. Intangible assets

Intangible assets acquired in a separate transaction are recognised in the balance sheet position at cost. Intangible assets acquired through the acquisition of a business are recognised in the balance sheet at fair value as at the acquisition date. Following initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses, if any.

Expenditure incurred on internally generated intangible assets, excluding capitalised development costs, is not capitalised and is charged against profits in the period in which it is incurred.

Intangible assets with definite useful lives are amortised throughout their useful lives and tested for impairment each time there is an indication of impairment. The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of future economic benefits embodied in an asset are disclosed by changing the amortisation period or amortisation method, as appropriate, and are accounted for as changes in accounting estimates. Amortisation charges on intangible assets with definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and those that are not used are tested for impairment annually at the level of the separate asset or the relevant cash generating unit.

9.8.1. Research and development costs

Research and development costs are recognised in profit or loss as costs when incurred. Any development expenditure incurred as part of a given project is carried forward to the next period, when it is assumed that it will be recovered in the future. After the initial recognition of development expenditure, the historical cost model is applied, according to which assets are recognised at cost less any accumulated amortisation and impairment losses.

Any expenditure carried forward to the next period is amortised over the expected period of revenue generated from sale of a given project.

Development costs are tested for impairment on an annual basis if a given asset has not yet been put into operation or, more frequently, when during the reporting period there is any indication that their carrying amount may be impossible to recover.

As at each balance sheet date, any development costs that are in progress are disclosed in intangible assets as a separate item ("Intangible assets under construction").

The rules applied to the Group's intangible assets can be summarised as follows:

	Patents and licences	**Cost of development works**	**Computer software**
Useful life	In case of patents and licences used under agreements for a definite period, their useful life period adopted includes an additional period for which their use can be extended	3 years	2 years
Applied amortisation method	Straight-line method	Straight-line method	Straight-line method
Internally generated or acquired	Acquired	Internally generated	Acquired
Impairment tests	Annual	Annual	Annual

Any gain or loss on derecognition of intangible assets is calculated as a difference between the net sales proceeds and the carrying amount of such assets, and recognised in profit or loss for the period, in which the assets are derecognised.

9.8.2. Goodwill

Goodwill arising on acquisition of a business is initially recognised at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is carried at acquisition cost less accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if there is any indication of impairment. Goodwill is not amortised.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the business combination. Each unit or group of units to which goodwill has been allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- not be greater than a single operating segment, determined in accordance with IFRS 8 Operating Segments before aggregation.

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the Group recognises an impairment loss. Impairment losses for goodwill cannot be reversed in subsequent reporting periods. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the cash-generating unit's business, the goodwill pertaining to the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on disposal of the part of business. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

9.9. Financial instruments

In accordance with IFRS 9 Financial Instruments, the Group recognises a financial asset or a financial liability in its statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument.

Initial recognition of a financial instrument:

The Group classifies financial assets into relevant category depending on the business model for financial assets management and on the characteristics of the contractual cash flows (SPPI test) for a given financial asset. The analysis of the intra-group agreements and the terms of the other financial instruments did not identify the conditions leading to the failure of the SPPI test. With respect to the business model, all debt financial assets held by the Group are held to collect contractual cash flows.

After initial recognition, the Group measures each financial asset:

- at amortised cost;
- at fair value through other comprehensive income,
- at fair value through profit or loss.

Financial assets measured at amortised cost

The Group measures a financial asset at amortised cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group classifies trade and other receivables, deposits under bank guarantees, loans granted, financial assets under a concession agreement as well as cash and cash equivalents as assets measured at amortised cost.

Following the initial recognition, trade and other receivables are measured at amortised cost using the effective interest rate method, taking into account the expected credit loss, whereby trade and other receivables maturing within less than 12 months from the recognition date (i.e. without a financing component) are not discounted and are measured at their nominal value, less the expected credit loss.

The Group uses simplified methods of measurement of financial assets and liabilities measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment of the amount receivable or settlement of the liability does not exceed 90 days.

Financial assets accounted at amortized cost, where the Group applies simplifications, are measured at initial recognition at the amount due, and subsequently, including at the end of the reporting period, at the amount of the payment due less the expected credit loss.

Financial assets measured at fair value through profit or loss

The Group does not hold any equity instruments. The Group recognises derivative instruments not designated for hedge accounting purposes as assets measured at fair value through profit or loss.

Option to measure at fair value through profit or loss and option to measure at fair value through other comprehensive income

IFRS 9 allows for classification of instruments into the category of fair value through profit or loss regardless of whether or not the tests described above are met, if such classification eliminates or significantly reduces the accounting mismatch. The Group does not use this classification option.

IFRS 9 allows for classification of equity instruments as measured at fair value through other comprehensive income. Instruments classified in this category are measured at fair value and changes in fair value are recognised directly in other comprehensive income without any transfer to profit or loss at the moment of sale. The Group does not use this option.

The general model is used by the Group for financial assets measured at amortised cost - other than trade receivables and assets from contracts with customers.

In the general model, the Group monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.

Credit losses are defined as the difference between all contractual cash flows that are due to the entity and the cash flows that the entity expects to receive. This difference is discounted using the original effective interest rate.

The Group accounts for forward-looking information in the applied parameters of expected credit losses estimation model through the expert, management adjustment of base ratios of probability of default. To calculate the expected credit loss, the Group determines the probability of default for receivables estimated on the basis of an analysis of the value of outstanding invoices and the default rate estimated on the basis of the value of outstanding invoices.

In accordance with IFRS 9, for trade receivables measured at amortised cost, the Capital Group applies a practical simplification, whereby the lifetime expected losses may be assessed on the basis of an "age table of past due receivables" based on historical data, applying the principles set forth in the standard for current and expected economic conditions which are determined on the basis of an expert adjustment.

In the calculation of the expected credit loss, the Capital Group applied a practical simplification in accordance with IFRS 9 - lifetime expected credit losses on trade receivables are assessed in terms of "age table of past due receivables". Requirements:

- Based on historical experience
- Determines fixed % of allowances
- The tables differ depending on the historical experience of each customer group

For trade receivables, the Capital Group applies a portfolio approach whereby historical data on the ratio of uncollected receivables to total receivables that have reached a specified delinquency bracket for each risk category are analysed. The Capital Group has defined the following brackets:

- Paid on or before the due date
- Paid up to 30 days after the due date
- Paid 31-90 days after the due date
- Paid 91-180 days after the due date
- Paid 181-365 days after the due date
- Paid later than 365 days after the due date
- Unpaid

For two financial years prior to the year under analysis (T-2 and T-1), the Group determines how many invoices issued during the year were finally paid in each of the brackets. On this basis, the next statement is created - a cumulative statement of total sales on invoices for subsequent periods (how many of the invoices issued in a given year were in the bracket of 0-30 days past due for at least 1 day, how many invoices were in the bracket of 31-60 days for at least 1 day, etc. up to the amount of invoices that were never paid).

The amount of receivables unpaid is applied to each of the aggregated amounts in order to calculate the portion of the receivables in a given bracket that will not be recovered. This percentage is used as the allowance ratio for the bracket. The amount of unpaid receivables may be adjusted either upwards or downwards depending on the Group's expectations concerning future non-recoverable amounts due to trends in the factors affecting the recoverability of receivables.

weights are assigned to the allowance ratios for each year under review and the weighted average allowance ratio is calculated for each bracket.

This calculation method ensures calculation of future expected credit losses based on historical loss experience for each age bracket of receivables and enables modification of the allowance ratio for expected changes in the recoverability of receivables.

As at each balance sheet date, the Group individually assesses the expected losses on recognised receivables and the probability of their occurrence for infrastructure entities. This assessment is made on the basis of the estimated outcome of negotiations in the case of disputes. Due to the fact that this group includes entities without bankruptcy capacity, the Group does not estimate the probability of default on contractual terms, but only the recoverable amount of receivables following the arrangements made with these entities regarding the final value of the work performed.

For other entities, the Group applied the model of group assessment of expected losses in line with the simplified approach defined in IFRS 9. Under this model, the Group estimates the allowance for lifetime credit losses on receivables from entities with similar credit risk characteristics. For the purpose of estimating the expected credit loss, the Group uses historical levels of credit losses depending on past due periods, adjusted by current expectations as to the development of these factors in the future.

Impairment of receivables reduces their carrying amount by using an expected loss account and recognising them as cost of sales or finance cost, respectively, depending on the type of receivables write-down. Reversal of the expected credit loss on receivables is recognised as a decrease in the cost of sales or finance costs.

Equity instruments are recognised in accordance with IAS 27 at cost less impairment losses.

A derivative measured at fair value through profit or loss may be designated as a hedging instrument. Hedging instruments are subject to special measurement rules.

Presentation

Financial assets and financial liabilities are presented as non-current unless they mature within twelve months after the balance sheet date.

Derecognition of assets

A financial asset (or a part of a financial asset or a group of similar financial assets) is derecognised from the balance sheet if:

- the contractual rights to receive the cash flows from the financial asset expire;
- the Group has transferred its rights to receive the cash flows from the asset and either (a) it has transferred substantially all risks and rewards of ownership of the financial asset, or (b) it has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset but it has transferred control over the financial asset; or
- the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows in full and without undue delay to a third party under a transfer agreement.

If the Group has transferred its rights to receive the cash flows from an asset to another entity and it has neither transferred nor retained substantially all risks and rewards of ownership and the transfer has not resulted in the transfer of control over the asset, the asset is recognised to the extent the Group has continuing involvement in such asset. The Group's continuing involvement in the form of guaranteeing the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of the consideration received that the Group could be required to pay.

9.10. Investments in jointly controlled entities

Since the acquisition of control of Bahn Technik Wrocław Sp. z o.o. on 30 December 2016, the Group has not held any shares in any jointly controlled entities. Until 30 December 2016, the investment was consolidated as a joint venture in accordance with IFRS 11, and currently the Group does not have any significant jointly controlled entities.

9.11. Derivative financial instruments

Derivative financial instruments used by the Group to hedge against currency risk include in particular IRSs. Such derivative financial instruments are measured at fair value. Derivative instruments are recognised as financial assets if their value is positive and as financial liabilities if their value is negative.

Gains or losses from changes in fair value of derivative instruments that do not comply with the hedge accounting criteria are recognised directly in profit or loss.

The fair value of currency IRS contracts is determined by reference to the current interest rates for contracts with a similar maturity date.

9.12. Hedge accounting

A hedging instrument is a designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

After the initial recognition, the entity measures a financial asset or liability at fair value corresponding to the amount for which an asset may be exchanged or liability settled between knowledgeable, willing parties at arm's length.

Cash flow hedges which meet the conditions for applying hedge accounting are recognised as follows:

- the portion of the gain or loss on the hedging instrument that is considered an effective hedge is recognised as a change in the hedged item;
- the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

Cash flow hedges considered effective are recognised in equity until the hedged asset or liability is recognised.

9.13. Inventory

Inventory is measured at cost no higher than realisable selling price as at the balance sheet date.

The cost does not include:

- any costs arising from unused production capacity and production losses,
- any costs of storage, unless they are indispensable for the manufacturing process,
- any margin on internal turnover (any margin on services rendered by the auxiliary business activities for the core business activities and any margin on internal sales between different sections of the core business activities), which is excluded together with the cost of internal turnover,
- any general and administrative costs and any costs of sales, marketing and distribution.

Any inventory that is used or sold is measured at the prices (costs) of the assets, which were acquired (manufactured) first by the Group, i.e. according to the FIFO (First in First out) method. Write-downs of inventory made because its value has declined or adjusted to the net realisable value are recognised in the balance sheet and classified as part of the cost of goods sold.

Reversals of write-downs are recognised as decreases in the cost of goods sold

The net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

9.14. Cash and cash equivalents

Cash and short-term deposits in the balance sheet include cash at bank and in hand as well as short-term deposits with an original maturity of three months or less.

The Group discloses cash deposited on escrow accounts and cash blocked on the accounts of the property development companies under cash and cash equivalents, while for the purpose of consolidated statement of cash flows – the balance of cash at the beginning and at the end of the financial year is reduced by the above cash, and the change in the carrying amount is recognised under cash flow from operating activities.

9.15. Equity

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

Share capital is recognised in its nominal value, as specified in the Parent Company's Articles of Association and entered in the commercial register.

Any declared, but unpaid, contributions to share capital are recognised in called-up share capital. Own shares and called-up share capital decrease the Group's equity.

Revaluation reserve is created in accordance with the provisions of the commercial law, according to which contributions to the revaluation reserve must constitute at least 8% of the profit for a given financial year, until it constitutes at least one third of share capital.

Share premium account is the surplus of the issue price over the nominal value.

Any costs of share issue at the establishment of a joint-stock company or at an increase in share capital decrease share premium account down to the surplus of the issue value over the nominal value of shares.

Revaluation reserve also includes:

- Previous years' profits,
- Hedging instruments,
- Actuarial gains (losses).

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

9.16. Interest-bearing loans, borrowings and debt securities

All the loans, borrowings and debt securities are initially recognised at cost corresponding to fair value of received cash less any costs associated with the obtaining of a loan or borrowing.

After the initial recognition, interest-bearing loans, borrowings, debt securities and finance lease liabilities are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost includes any costs associated with the obtaining of a loan or borrowing, as well as any costs of discounts or bonuses obtained at the settlement of the liability.

Any gain or loss is recognised in the balance sheet as at the derecognition of the liability from the balance sheet and as a result of write-down calculation.

9.17. Trade and other liabilities

After initial recognition, the Group measures financial liabilities:

- at amortised cost,
- at fair value through profit or loss.

Short-term trade liabilities are reported at amounts payable. Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

Financial liabilities other than financial liabilities measured at fair value through profit or loss are measured as at the balance sheet date at amortised cost (i.e. they are discounted using the effective interest rate). Short-term liabilities, with maturities of up to 365 days, are measured at amounts due.

Derecognition of a financial liability

A financial liability (or a part of a financial liability) is derecognised from the statement of financial position when it is extinguished, i.e., when the obligations specified in the contract are discharged, cancelled or expired.

A financial liability (or part of it) is extinguished when the debtor either:

- discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services; or
- is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor. (If the debtor has given a guarantee this condition may still be met.)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

9.18. Provisions

Provisions are recognised, if the Group has an obligation (legal or customarily expected) resulting from past events, and if it is likely that meeting such an obligation shall result in the outflow of economic benefits being necessary, and if the amount of such an obligation can be reliably estimated. If the Group expects that the costs covered by the provision will be reimbursed, for example, under an insurance contract, such a reimbursement is recognised as a separate asset, but only when it is certain that such a reimbursement will be made. Any costs related to a given provision are recognised in loss or profit less any certain reimbursements.

If an impact of the value of money in time is significant, the provision is determined by discounting the forecast future cash flows to their present value, using the gross discount rate that reflects the present market value of money in time and any risk related to a given liability. If a discount-based method is applied, an increase in the provision over time is recognised as financing costs.

Provisions for losses on contracts are recognised when inevitable expenses related to the fulfilment of the commitment towards a customer exceed expected revenues according to the estimates of a realisable transaction price. In particular, such provisions shall also be recognised as a result of the revision of budgets and the degree of work progress. In events in which the future budgeted costs exceed the revenues from the transaction price, which are still to be recognised, the difference (expected loss on the contract concerned) shall be recognised in the statement of financial position as a provision. In the following periods, such a provision shall be derecognised as the actual loss is incurred or increased if the following revisions result in a higher loss being expected.

The Group recognises no provisions for future operating losses.

A given provision may only be used for expenditures for which it was originally recognised. The provision is used without the effect on profit or loss by allocating its estimated amount to the liabilities or by decreasing its value in relation to the payment made.

Provisions are recognised respectively as operating expenses of core business activities, other operating expenses or financial expenses, depending on the circumstances, to which potential liabilities relate.

Any unused provisions, whose further maintenance is not reasonable, shall increase as at the day, in which they become obsolete, respectively, revenues from the core operating activities, other operating revenues or financial revenues, depending in which category they were recognised at the time of their creation.

If a discount-based method is applied, an increase in the provision over time is recognised as a financial expense.

Provisions shall be subject to revision as at each balance sheet date in order to reflect current estimates.

9.19. Retirement and pension benefits and jubilee bonuses

In accordance with the corporate remuneration systems, employees of the Group companies are entitled to jubilee bonuses and retirement and pension benefits. Jubilee bonuses are paid to employees who have worked in the Company for a certain number of years. Retirement bonuses are paid on a one-off basis at the moment of retiring. The amounts of retirement and pension benefits and jubilee bonuses depend on the employee's work records and average remuneration. The Group creates provisions for future liabilities from retirement and pension benefits and jubilee bonuses in order to assign costs to relevant periods. Pursuant to IAS 19, jubilee bonuses are other long-term employee benefits, and retirement benefits are programmes for certain benefits upon the termination of the employment period. Present value of these liabilities as at the balance sheet date is determined in accordance with the generally applicable actuarial methods. Accrued liabilities are equal to the discounted payments to be made in the future, taking into account the turnover of employment, and relate to the period up to the balance sheet date. Demographic data and information about the turnover of employment are based on historical data. Any actuarial gains or losses on the measurement of the retirement and disability pension benefit programmes are recognised in other comprehensive income, whereas any actuarial gains or losses on the measurement of jubilee bonuses are recognised in profit or loss. Any other costs related to the programmes for specific benefits are recognised in a full amount in profit or loss for the period in which they are incurred.

9.20. Prepayments

Prepayments include in particular:

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

Prepayments are settled respectively to the lapse of time or the quantity of services rendered. The time and manner of settlement depends on the nature of the costs settled on a prudent basis.

If costs attributable to future periods are not settled within the nearest 12 months from the balance sheet date, they are disclosed in the balance sheet as a separate item ("Long-term prepayments").

9.21. Settlements under contracts with customers

At the conclusion of the agreement, the Group makes assessment of goods and services resulting therefrom and identifies as a liability to render services any promise to transfer to a customer:

a) any goods or services (or any bundle of goods or services) that are distinct; or

b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A series of distinct goods or services is transferred to the customer in the same pattern if both of the following criteria are met:

a) each distinct good or service in the series that the Group promises to transfer consecutively to the customer meets the criteria specified in IFRS 15, consisting in such a good or service being regarded as a performance obligation that is satisfied over time; and

b) in keeping with IFRS 15, a single method for measuring progress would be used to measure the Group's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

A good or service is distinct if both of the following criteria are met:

a) the customer can benefit from the good or service on its own or in conjunction with other readily available resources (i.e. the good or service can be distinct); and

b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the agreement (i.e. the good or service are distinct within the same agreement).

Revenue is recognised as at the fulfilment (or during the fulfilment) of the obligation to complete satisfaction of the performance obligation to transfer the promised good or service (i.e. an item of assets) to the customer. The transfer of an item of assets is completed at the acquisition by the customer of control over it.

For each obligation to complete satisfaction identified pursuant to the aforementioned provisions, the Group shall determine at the conclusion of the agreement, whether the obligation concerned is to be completed over time or at a point in time. If the Group does not satisfy its performance obligation over time, it satisfies it at a point in time.

For each obligation to complete satisfaction of a performance obligation over time, the Group recognises revenues over time, measuring the degree of the total completion thereof. The purpose of such measurements is to determine the progress in the Group's performance of the obligation to transfer control over the goods or services promised to the customer (i.e. the degree of progress in the obligation to complete satisfaction).

The Group applies a single method for measuring progress to each obligation to complete satisfaction of a performance obligation over time and applies this method consistently in relation to similar obligations and in similar circumstances. At the end of each reporting period, the Group reassesses the degree of progress in the full completion of the obligation performed over time.

After the fulfilment (or during the fulfilment) of the obligation to complete satisfaction of the performance obligation, the Group recognises as revenue an amount equivalent to the transaction price (excluding the estimated value of variable remuneration, which is restricted) that was assigned to the obligation concerned. In order to determine the transaction price, the Group takes into consideration the terms of the agreement and the customary commercial practices. The transaction price is an amount of remuneration which, as expected by the Group, is to be paid to it in exchange for the transfer of the goods or services promised to the customer, except for any amounts collected for the benefit of third parties (e.g. any sales tax).

9.21.1. Contract asset

In the statement of financial position, the Group recognises a contract asset, i.e. the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time. This item of the statement of financial position includes, in particular, assets relating to completed and delivered works under long-term construction contracts that have not yet been invoiced and the recognition of revenue in connection with the transfer of control over products or goods that will be invoiced in the future.

9.21.2. Contract liabilities

In the statement of financial position, the Group recognises a contract liability, i.e. the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group recognises a contract liability mainly in relation to contracts for which the payment is made in advance and in relation to the consideration for construction works received in advance for services not yet provided by the Group. Moreover, a contract liability arises in the case of completed transactions with customers entitled to discounts that will be settled jointly at the end of a specified period.

9.21.3. Short-term receivables

The Group recognises an amount receivable if its right to consideration is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

After initial recognition, short-term trade and other receivables are measured at the amortised cost using the effective interest method less any impairment losses.

9.21.4. Revenue from contracts with customers

The Group determines the degree of progress in the completion of the performance obligation for each obligation on the basis of periodic reports presented by directors responsible for particular construction projects. Reports are prepared on a quarterly basis and specify the degree of progress in works and the estimation of costs incurred and budgeted.

Based on the reports, the data on the degree of progress is entered in the Group's accounting system and used for calculating revenues and costs.

The amounts recognised in the statement of profit or loss and in the balance sheet as assets and liabilities concerning contracts are determined as a ratio of the estimated degree of work progress to the estimated general costs of contracts and the estimated revenues from contracts.

The estimated revenues are derived from the transaction price which included all the amounts due to the Group for the performance of a contract. Such amounts may include contractual amounts of remuneration and its variables, if the Group assesses the likelihood of the completion of the relevant terms as high, and may also be decreased by any rebates or discounts on the price, which the Group expects in the future.

Revenue category	Character, essential payment terms and the moment of fulfilment of the obligation to perform the service.
Revenues from the sale of long-term construction services	Construction and assembly contracts cover various market segments, including: - tracks and contact line, - electric power engineering, - bridges, viaducts, tunnels, - roads and motorways. Obligations to perform the service related to the implementation of long-term construction contracts are met in time. Revenue from these services is recognized in the statement of profit or loss, in proportion to the degree of the implementation thereof as at the reporting date. The degree of service implementation is assessed on the basis of the level of cost advancement. Revenue is not recognized when there is significant uncertainty in connection with obtaining due remuneration, reimbursement of costs incurred or the potential return of products and goods. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.
Revenues from the sale of design services	The Trakcja Group offers specialized design services in the field of study works, feasibility studies, conceptual designs, construction and executive projects, assembly projects, as-built projects, bidding and costing documents, as well as other specific analyses in the field of railway construction and railway transport technologies. Obligations to perform a service related to the implementation of project work are met at a specific point in time - at the moment of the transfer of control over the products of the project works. Revenue is not recognized when there is significant uncertainty in connection with obtaining due remuneration, reimbursement of costs incurred or the potential return of products and goods. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.
Revenue from renting equipment	The Group offers rental services for railway construction works and all general construction works. Revenue from renting of the equipment is recognized in the statement of profit or loss in time in the amount of monthly invoices issued. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.

Revenue from the sale of products, goods and materials	Revenue from the sale of products, goods and materials is recognized in the statement of profit or loss when control over them has been transferred to the buyer. In principle, the transfer of control is the moment when the significant risks and benefits resulting from their ownership were transferred. In the absence of specific arrangements between the parties (e.g., by applying Incoterms), sales revenue is recognized at the time of delivery to a customer. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.
Revenue from developer activities	Revenue from developer activities is recognized in the statement of profit or loss when the control over an apartment is transferred to a buyer. This is the moment of signing a notarial deed transferring the ownership of a real estate, premises or other part of a property (e.g., garage) to a client. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.
Revenue from the sale of transport services	Trakcja PRKiI S.A. (joint stock company) is a licensed railway carrier. Transport services are rendered both under separate transport contracts and as part of the delivery of products and goods sold by the Group. In the case of contracts for the supply of products together with the provision of transport services, revenue from the sale of transport services provided to a customer after the control over products or goods are recognized in the statement of profit or loss at the end of transport. Remuneration for transport services is indicated in contracts with customers and is included in sales invoices. Transaction price is assigned to transport services according to their individual sales price resulting from the applicable price lists. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.

The Company verifies on a quarterly basis the following:

- the degree of work progress;
- the total implementation costs of works;
- the expected transaction price.

The Company makes sure that the value of assets related to the contracts implemented, as indicated in the statement of financial position, does not exceed any potential future remuneration accounts less any costs attributable to future periods.

The foregoing is made, in particular, through the regular revision of the viability of the assumed transaction price and the expenses budget. The verified degree of progress in works is then compared to these two values in order to ensure that the assets are recognised exclusively up to the likely obtainable amount.

As a result of this process, the Company complies with the requirement under paragraph 101 of IFRS 15.

9.21.5. Revenue from consortium agreements

The Group implements certain contracts under consortium agreements whereby it acts as a consortium leader. The Group does not recognize in the income statement the portion of revenue and expenses attributable to consortium members – in accordance with IFRS 11.

At the same time, the Group recognises in the balance sheet only that portion of assets and liabilities that is attributable to the Group's share in jointly controlled operations.

9.22. Interest income

Interest income is recognised as it accrues (using the effective interest rate method) by reference to the net carrying amount of a particular financial asset.

9.23. Dividend income

Dividends are recognised when the shareholders' right to receive the payment is established.

9.24. Taxes

9.24.1. Current tax

Any income tax on revenues generated in Poland is calculated in accordance with the Polish tax regulations, but any income of entities that carry out their activities abroad are taxed in accordance with local tax regulations, including provisions of double taxation conventions. The applicable income tax rate in Poland is 19%, in Lithuania 15%, Sweden 22%, Belarus 18% and Ukraine 18%.

Liabilities and receivables from the current tax for the current and previous periods are measured at the expected payment for the tax authorities (the expected refund from the tax authorities) calculated according to tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

9.24.2. Deferred tax

Deferred income tax is calculated using the balance sheet liability method in respect of all the temporary differences occurring as at the balance sheet date between the tax value of assets and liabilities and their carrying amounts disclosed in the consolidated financial statements.

Provisions for deferred income tax are recognised with reference to all the positive temporary differences:

- except for when a provision for deferred income tax arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination and having no effect at the moment of its being carried out on the gross profit or loss or on the taxable income or tax loss; and
- for the positive temporary differences arising from investments in subsidiaries or affiliated parties and shares in joint ventures, except for when the due dates for the reversal of temporary differences are subject to the investor's control and when it is likely that in the foreseeable future the temporary differences will not be reversed.

Deferred tax assets are recognised in relation to all the negative temporary differences and also to unused tax assets and unused tax losses carried forward to the next years, to the extent which makes it probable that future taxable income will be available to be reduced by the aforementioned differences, assets and losses:

- except for when the deferred tax assets related to the negative temporary differences arise from the initial recognition of an asset or liability in a transaction other than a business combination and having no effect at the moment of its being carried out on the gross profit or loss or on the taxable income or tax loss; and

- for the negative temporary differences arising from investments in subsidiaries or affiliated parties and shares in joint ventures, the deferred tax asset is recognised in the balance sheet only to the extent which makes it probable that in the near future the aforementioned temporary differences will be reversed and the taxable income will be available to deduct the negative temporary differences.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and is decreased as necessary, when it is no longer likely that future taxable income will be available to fully or partially capitalise the deferred income tax asset.

Deferred income tax assets and provisions for deferred income tax are measured with the use of such tax rates as are expected to be binding at the time of the capitalisation of such an asset or the release of such a provision, based on the tax rates (and tax laws) effective as at the balance sheet date or tax rates (and tax laws) that are to be certainly effective as at the balance sheet date.

Income tax on transactions recognised directly in equity is recognised in equity and not in profit or loss.

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

9.24.3. Value added tax

Revenues, costs, assets and liabilities are recognised less value added tax, except for the following:

- when the value added tax paid at the purchase of assets or services cannot be recovered from tax authorities; it is recognised respectively as part of the cost of such an asset or service;

- receivables and liabilities that are disclosed with the value added tax.

A net amount of the value added tax to be recovered from or paid to tax authorities is recognised in the balance sheet as part of receivables or liabilities.

9.25. Earnings per share

Earnings per share for each period are calculated by dividing a net profit allocated to shareholders in the Parent Company for a given period by the weighted average number of shares outstanding in the reporting period concerned. Diluted earnings per share for each period are calculated by dividing a net profit allocated to shareholders in the Parent Company for a given period by the total of the weighted average number of ordinary shares outstanding during the reporting period concerned and all the potential dilutive shares.

Shares are included in the weighted average number of shares starting from the day in which the payment for shares becomes due (which usually corresponds to their issue date). The ordinary shares issued as part of payment made under a business combination are taken into account when calculating the average weighted number of shares at the business combination date. Ordinary shares that can be issued if certain conditions are met (contingently issuable shares) are treated as outstanding during the period and included in the calculation of earnings per share only when the contingency has been met. Outstanding ordinary shares that are contingently returnable (i.e. are subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date they are no longer subject to recall.

9.26. Service concession arrangements

The Company entered into service concession arrangements in the framework of a public-private partnership involving the grantor (Litewski Urząd Drogowy) and the operator (UAB Palangos aplinkkelis which is a subsidiary of the Issuer). The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and other terms. The Group recognises and measures revenue in accordance with IAS 11 and IAS 18 for the services it performs. The Group accounts for service concession arrangements using the model specified in IFRIC 12. If the operator performs more than one service (i.e. construction, maintenance and modernisation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable. The Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor.

The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator:

- specified or determinable amounts or

- the shortfall, if any, between the amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

IAS 32, IAS 39 and IFRS 7 apply to the financial asset recognised. The amount due from or at the direction of the grantor is accounted for in accordance with IAS 39 as receivables, and interest calculated thereon using the effective interest method is recognised in profit or loss.

In accordance with IAS 23, costs of external funds attributable to the arrangement are recognised as an expense in the period in which they are incurred unless the operator has a contractual right to receive an intangible asset (a right to charge users of the public service).

10. Standards and amendments to standards issued by the IASB

The effect of using new accounting standards and amendments to the accounting policy

Except for the changes presented below, the accounting principles (policy) applied to these separate financial statements for the financial year ending on December 31, 2019 are consistent with those applied to the annual consolidated financial statements for the financial year ended December 31, 2018.

The same principles have been applied to both the current and the comparable period.

Changes resulting from changes in IFRS

The new or amended standards and interpretations issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC), which are applicable from the beginning of the financial year concerned, have been specified below.

- IFRS 16 Leases

The new standard was published on January 13, 2016 and applies to annual periods beginning on or after January 1, 2019 and any earlier application thereof is admissible (but on the condition of simultaneous application of IFRS 15). The standard replaces existing regulations on leases (in particular, IAS 17) and completely changes the approach to leases of any type, requiring lessees to recognise assets and liabilities concerning leases of any type in the balance sheet.

- IFRIC 23 Uncertainty over Income Tax Treatments

The new interpretation was issued on June 7, 2017 and applies to annual periods beginning on or after January 1, 2019. The purpose of the interpretation is to indicate the manner of recognising income tax in financial statements when existing tax regulations leave room for interpretations and difference of opinions between the company and tax authorities.

- Amendments to IFRS 9: Prepayment features with negative compensation

The amendment to IFRS 9 was published on October 12, 2017 and applies to annual periods beginning on or after January 1, 2019. Its purpose is to indicate rules for valuation of financial assets, which may be early repaid pursuant to contractual terms, and, formally, may not meet the requirements of the "solely payments of principal and interest on the principal amount" (SPPI) criterion, which would exclude their valuation at amortized cost o at fair value charged to other total income.

- Amendment to IAS 28: Long-term interests in associates and joint ventures

The amendment to IAS 28 was published on October 12, 2017 and applies to annual periods beginning on or after January 1, 2019. Its purpose is to indicate rules for valuation of interests in associates and joint ventures in case of valuation other than using the equity method.

- Amendments to various standards resulting from the annual review of the International Financial Reporting Standards (Annual Improvements 2015-2017)

On December 12, 2017 the following amendments were introduced to the below standards, as a result of an IFRS review:

- IFRS 3 Business Combination – specifying that upon taking over the control, the entity will re-evaluate interests held in the joint venture;

- IFRS 11 Joint Arrangements – specifying that upon taking over common control, the entity does not re-evaluate interests held in the joint venture;

- IAS 12 Income Tax – specifying that all tax-related consequences of dividend payments should be recognized in the same manner;

- IAS 23 Borrowing Costs – instructing that general financing sources should also include credits and loans, which initially served to finance developed assets – starting from the moment when assets are ready to use in accordance with intended purpose (use or sale).

Amendments apply to annual periods beginning on or after January 1, 2019.

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Amendments to IAS 19 were published on February 7, 2018 and apply to annual periods beginning on or after January 1, 2019. Amendments relate to the manner of re-evaluation of benefit plans in case of any changes to the plans. Amendments to this standard mean that in case of a re-evaluation of the net asset/liability due to the given plan, updated assumptions should be applied to determine the current cost of labour and cost of interest for periods following plan amendments. Previously, IAS 19 was not specific about this.

Effect of application of new accounting standards and changes to the accounting policy

Effects of application of new standards that had significant impacts on the financial statements have been presented below.

IFRS 16 Leases

Selected accounting principles

IFRS 16 Leases was published on January 13, 2016 and adopted by the European Union on October 31, 2017.

In accordance with requirements in this IFRS, the Company has been applying requirements of this new standard for recognition, measurement, presentation and disclosure of leases since January 1, 2019. The new standard has been implemented by the Company in accordance with transitional provisions specified in IFRS 16. The Company implemented IFRS 16 using a modified retrospective approach, therefore the comparable data for 2018 was not restated, and the potential total effect of the initial application of the new standard was recognised as an adjustment to the opening balance of retained earnings on the first day of application.

Definition of lease

Since January 1, 2019 the Company assesses whether a contract is or contains a lease on the basis of the definition of lease provided in IFRS 16.

In keeping with IFRS 16, a contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to determine whether the contract conveys the right to control the use of a given asset for a period of time, the Company assesses whether throughout the entire period of use the customer has both:

a) the right to obtain substantially all the economic benefits from the use of an identified asset; and

b) the right to direct the use of an identified asset.

The Company applies new guidelines on the identification of leases only in relation to contracts entered into (or amended) on or after January 1, 2019. Therefore, the Company applied to all the contracts entered into before January 1, 2019, a practical expedient provided for under IFRS 16, in keeping with which an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead the Company applies IFRS 16 only to contracts which were identified as leases in accordance with IAS 17 and IFRIC 4.

Company as a lessee

In accordance with IFRS 16, the Company recognises a right-of-use asset and a lease liability in the statement of financial position, for all the lease contracts, except where IFRS 16 provides exemptions in that respect.

For contracts in force on January 1, 2019, previously classified as operating leases, the Company recognised the right-of-use assets and lease liabilities as follows:

- the lease liability was measured at the present value of the lease payments payable over the remaining lease term, discounted at the marginal interest rate applicable to a given lease on the first day of application;

- the right-of-use assets for individual leases (separately for each of them) were measured at the value equal to the lease liability. The Company applied the practical expedient referred to in section C10b of IFRS 16 to such leases.

In applying the modified retrospective method for implementing IFRS 16, the Company has implemented the following practical solutions for leases previously classified as operating leases under IAS 17, and therefore it recognises as expenses the following types of contracts:

- leases with a lease term of 12 months or less from the initial adoption of the standard;

- leases where the underlying asset has a low value, i.e. no higher than USD 5,000, for example: small items of furniture.

After initial recognition, the Company measures the right-of-use asset similar to any other non-financial fixed asset, and the lease liability similar to any financial liability. As a result, after initial recognition, the Company recognises depreciation of the right-of-use asset (except for when such an asset is an investment property) and interest on the lease liability.

For the right-of-use asset classified as investment property measured at fair value, the Company grossed-up the value of investment property, whose measurement was increased by the liability recognised under IFRS 16. Revaluation rules and frequency for investment property have been described in Note 9.4. of the Notes to the annual consolidated financial statements of Trakcja Group for 2019.

The determination of the lease term has a significant impact on the initial measurement of both assets and liabilities. In line with the definition of the lease term under IFRS 16, the lease term is the non-cancellable period and periods covered by an extension option or by a termination option, if it is reasonably certain that the Company exercises such an extension option or does not exercise such a termination option.

In addition, when making estimates and assumptions, the Company carried out other subjective assessments that have an effect on the measurement of the lease liabilities and the right-of-use assets, in the following scope:

- determination of marginal interest rates applied to discount future cash flows;

- indication of the periods of use for the right-of-use assets recognised as at January 1, 2019;

- structure of fixed and variable payments in the contract.

Marginal interest rates are defined as the total of the following:

a) a risk free rate as set for the IRS (Interest Rate Swap), taking into account the maturity of a discount rate and the relevant base rate for a given currency; and

b) a credit risk premium set on the basis of a credit margin.

(figures in PLN '000, unless stated otherwise)

The Company applies compound interest to calculate monthly discounted cash flows.

For any leases in force as at January 1, 2019, previously classified as finance leases under IAS 17, the carrying amounts of the right-of-use asset and the lease liability as at January 1, 2019 was determined as the carrying amounts of the asset leased and the lease liability directly preceding that day, measured in accordance with IAS 17.

The average weighted marginal interest rate of the Company as the lessee, applied to the lease liabilities presented in the statement of financial position as at January 1, 2019 was for the individual lease terms as follows:

Lease term in years	annual discount rate	monthly discount rate
from 1 to 3	3,55%	0,29%
from 3 to 5	3,92%	0,32%
from 5 to 10	4,55%	0,37%
over 10	4,97%	0,41%

An impact on the financial statements as at the initial application has been as follows:

As at January 1, 2019 the Company recognised the right-of-use assets equal to the lease liabilities in the amount of PLN 10,730 thousand, which did not result in any difference being recognised in retained earnings.

An impact of the amendment to the standard on the financial statements has been presented below:

Comparison of lease assets and liabilities under IFRS 16

Before change IAS 17	After change from 01.01.2019 IFRS 16						
Third-party services for 12 months	Depreciation for 12 months	Interest for 12 months	Total	Assets used on the grounds of lease agreements	Liabilities under lease agreements		
					as at 01.01.2019		
					long-term	short-term	total
4 339	3 904	602	4 506	14 896	10 652	4 244	14 896

The Company is a party to various financial agreements. The implementation of IFRS 16 may affect the calculation of covenants thereunder and cause deterioration in debt ratios.

Assets recognised as the right-of-use assets include primarily rights of perpetual usufruct of land, office premises and production facilities.

After lease commencement, the Company measures the lease liability through:

a) an increase in the carrying amount thereof in order to reflect any interest thereon;
b) a decrease in the carrying amount thereof in order to reflect any lease payments made; and
c) a remeasurement of its carrying amount in order to reflect any reassessment or change in the lease or any updated fixed lease payments.

After lease commencement, the Company follows the guidelines under IFRS 16 on remeasurement of the lease liability in order to reflect any changes in lease payments. The Company recognises a remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and the lease liability is further decreased, the remaining remeasurement is recognised by the Company in profit or loss.

When the Company revises the estimated lease term (because, for example, it reassessed the likelihood that an extension option or a termination option will be exercised), it makes an adjustment to the carrying amount of the lease liability in order to reflect payments that need to be made before the expiry of the amended lease term, which are discounted at the same discount rate as that applied at the beginning of the lease. The carrying amount of the lease liability is changed in a similar manner when a variable element of future lease payments that depend on an index or a rate is modified. In both cases an appropriate adjustment to the carrying amount of the right-of-use asset is made, and the adjusted carrying amount is depreciated during the remaining (modified) lease term.

If the Company renegotiates the terms of a lease with a lessor, the recognition thereof depends on the type of modification made:

- If renegotiations result in an additional lease of one or several assets for the amount proportional to a unit price of the additional rights of use obtained, such a modification is recognised as a separate lease in accordance with the aforementioned policy;
- In any other cases, if renegotiations expand the scope of any lease (through the extension of its term or the addition or one or several assets), the lease liability is remeasured using the discount rate as at the agreement of modification, and the right-of-use asset is adjusted accordingly;
- if renegotiations result in a reduction in the scope of any lease, both the carrying amount of the lease liability and the carrying amount of the right-of-use asset is reduced accordingly in order to reflect the partial or complete termination of the lease concerned, and any difference resulting therefrom is recognised in profit or loss. The lease liability is then further adjusted in order to ensure that its carrying amount reflects the renegotiated payments for the renegotiated lease term, where the modified lease payments are discounted at a discount rate as at the agreement of the modification concerned. The right-of-use asset shall be adjusted accordingly.

In 2019, the Company renegotiated one of the contracts recognised as leases under the new IFRS 16 as at January 1, 2019, namely a lease contract for warehouse and office facilities, whose term initially was to end on December 31, 2020, but as at September 1, 2020, a new contract for the same subject of the lease was entered into force with an increased lease payment. Therefore, the Company made an adjustment in the amount of PLN 393.5 thousand to the initial liability and the new lease liability was measured at the discount rate as at the conclusion of the new lease. At the modification of the contract, the carrying amount of the right-of-use asset was PLN 389 thousand. A difference between the carrying amount and the adjustment to the liability in the amount of PLN 4.5 thousand decreased the right-of-use asset calculated according to the adopted policy for the new lease.

For contracts that both give the Company the right to use a certain asset and require that services be provided to the Company by the lessor, the Company decided to account separately for the services rendered by the provider and to separate them from the total payments. Therefore, the Company assesses whether a contract contains lease and non-lease components. Non-lease components, such as maintenance fees in contracts for lease of premises, or service maintenance of components of assets constituting the subject of the contract, are then separated from contracts that included lease and non-lease components.

However if the contract covers non-lease elements which the Company deems insignificant in the light of the entire contract, the Company shall apply a simplification consisting in joint treatment of lease and non-lease elements as one lease element.

Changes introduced by the Company independently

The Company made no adjustments to the presentation of comparable data as at December 31, 2018 or for the financial year ended December 31, 2018.

Non-applicable standards (New standards and interpretations)

In these financial statements the Company decided not to apply any standards or interpretations issued before their effective dates.

Standards and interpretations other than those in force as at the balance sheet date, issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC) were as follows:

- Amendments to IFRS 3 "Business Combinations"

The amendment to IFRS 3 was published on October 22, 2018 and applies to annual periods beginning on or after January 1, 2020.

The amendment aimed at specifying the definition of business and making it easier to differentiate between a business and a group of assets for the purposes of business combinations.

The Company shall apply the amended standard from the date indicated by the EU as the commencement date for the entry in force of the amendment concerned.

- Amendments to IAS 1 and IAS 8: Definition of "material"

Amendments to IAS 1 and IAS 8 were published on October 31, 2018 and apply to annual periods beginning on or after January 1, 2020.

Their purpose was to further specify the definition of the term "material" for its easier practical application.

The Company shall apply the amended standard from January 1, 2020.

- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

Amendments to IFRS 9, IAS 39 and IFRS 7 were published on September 26, 2019 and apply to annual periods beginning on or after January 1, 2020.

The amendments modify specific hedge accounting requirements in order to minimise (eliminate) any potential consequences of uncertainty arising from the (interbank) interest rate benchmark reform. In addition, entities are required to add specific disclosures about those hedging relationships which are directly affected by uncertainty arising from the reform.

The Company shall apply the amended standard from the date indicated by the EU as the commencement date for the entry in force of the amendment concerned.

- Amendment to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

The amendment to IAS 1 was published on January 23, 2020 and applies to annual periods beginning on or after January 1, 2020.

The amendment redefines criteria that must be met for a liability to be considered current. It may affect the presentation of liabilities and their reclassification between current and non-current liabilities.

The Group shall apply the amended standard from January 1, 2022. At this stage it is impossible to reliably determine the impact of the standard on the Group's financial statements.

At the moment, the IFRS in the shape approved by the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the below standards, interpretations and amendments thereto, which as at the approval of these financial statements for publication have not yet been approved for application in the EU countries:

- IFRS 14 Regulatory Deferral Accounts published on January 30, 2014 (the adoption thereof by the EU countries deferred indefinitely),
- IFRS 17 Insurance Contracts published on May 18, 2017,
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture published on September 11, 2014 (the adoption thereof by the EU countries deferred indefinitely),
- Amendment to IFRS 3 Business Combinations published on October 22, 2018,
- Amendment to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current published on January 23, 2020.

Changes introduced by the Company independently

In 2019, no changes were made to the accounting principles and the rules for preparing financial statements in comparison to those disclosed in the Company's financial statements for 2018 published on April 30, 2019.

11. Selected financial data

The average PLN/EUR exchange rates in the period covered by the annual consolidated financial statements:

Financial year ended	Average exchange rate in the period*	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
31.12.2019 r.	4,3018	4,2406	4,3891	4,2585
31.12.2018 r.	4,2669	4,1423	4,3978	4,3000

**) Average of the exchange rates effective for the last day of each month in the financial year.*

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

	31.12.2019		31.12.2018	
	kPLN	kEUR	kPLN	kEUR
Non-current assets	596 366	140 042	720 882	167 647
Current assets	887 954	208 513	822 054	191 175
TOTAL ASSETS	**1 484 320**	**348 555**	**1 542 936**	**358 822**
Equity	425 484	99 914	654 380	152 181
Long-term liabilities	232 816	54 671	93 112	21 654
Short-term liabilities	826 020	193 970	795 444	184 987
TOTAL EQUITY AND LIABILITIES	**1 484 320**	**348 555**	**1 542 936**	**358 822**

The data reported in the consolidated balance sheet was translated at the exchange rate quoted by the National Bank of Poland for the last day of the financial year.

Key items of the consolidated income statement translated into EUR:

	Year ended 31.12.2019		Year ended 31.12.2018	
	kPLN	kEUR	kPLN	kEUR
Sales revenues	1 440 774	334 924	1 560 648	365 757
Cost of goods sold	(1 509 015)	(350 787)	(1 644 890)	(385 500)
Gross profit (loss) on sales	**(68 241)**	**(15 863)**	**(84 242)**	**(19 743)**
Operating profit (loss)	(288 390)	(67 039)	(117 092)	(27 442)
Gross profit (loss)	**(313 369)**	**(72 846)**	**(127 404)**	**(29 859)**
Net profit (loss) from continued operations	(285 048)	(66 262)	(110 172)	(25 820)
Net profit for the period	**(285 048)**	**(66 262)**	**(110 172)**	**(25 820)**

The consolidated income statement data was converted at the average EUR exchange rate, calculated as the average of the exchange rates effective on the last day of each month in the financial year, quoted by the National Bank of Poland for that day.

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

	Year ended 31.12.2019		Year ended 31.12.2018	
	kPLN	kEUR	kPLN	kEUR
Cash flows from operating activities	(190 108)	(44 193)	(34 715)	(8 136)
Cash flows from investment activities	4 601	1 070	(31 699)	(7 429)
Cash flows from financial activities	176 293	40 981	73 535	17 234
Total net cash flows	**(9 214)**	**(2 142)**	**7 121**	**1 669**

The above data contained in the consolidated statement of cash flows was converted at the average EUR exchange rate, calculated as the average of the exchange rates effective on the last day of each month in the financial year, quoted by the National Bank of Poland for that day.

	31.12.2019		31.12.2018	
	kPLN	kEUR	kPLN	kEUR
Cash at start of period	116 675	27 134	112 172	26 894
Cash at end of period	**107 461**	**25 234**	**116 675**	**27 134**

Cash excluded from the statement of cash flows as at 31 December 2019 comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.

The above data contained in the consolidated statement of cash flows was converted at:

- the exchange rate quoted by the National Bank of Poland for the last day of the financial year – for "Cash at the end of the period",
- the exchange rate quoted by the National Bank of Poland for the last day of the financial year preceding the respective financial year – for "Cash at the beginning of the period".

The EUR/PLN exchange rate on the last day of the financial year ended 31 December 2017 was PLN 4.1709.

12. Information on segments

Organisation and management of the Group's business are based on separate segments, corresponding to the types of products and services offered and markets served. Due to the relatively uniform nature of business activities of the Group companies, the following segments correspond to individual Group members.

As a consequence, the following reporting operating segments have been identified:

- Civil engineering – Poland – segment which performs civil engineering, construction and assembly works (Trakcja PRKiI, BTW, Torprojekt, PEUiM, Dalba and PDM Białystok);
- Construction, engineering and concession arrangements – Baltic States – segment which performs civil engineering, construction and assembly works in the road and rail sectors in Baltic States (AB Kauno Tiltai Group);
- Other – residential construction segment, which provides broadly defined real estate development services, including building construction works (PRK 7 Nieruchomości); this segment also includes operations of Ukrainian companies.

The Management Board monitors the respective segments' operating performance to make decisions on the allocation of resources, and evaluate the results of the allocation and the segments' operating performance. Profit or loss before tax is used as the key metric to evaluate results of the operations. Income tax is monitored at the Group level and is not allocated to the operating segments.

The principles applied to the operating segments in order to determine their financial performance, assets and liabilities, and to determine which of these elements are to be monitored at the Group's level remained unchanged in 2019.

Key customers:

In 2019 and in the comparable period, revenue from transactions with external customers accounted for 10% or more of the Group's total revenue. Total revenue by type of customers and by segment to which such revenues pertain are presented in the table below:

Total amount of revenues obtained in 2019 from a single recipient (PLN thousand)	Segments presenting these revenues
647 063	Civil construction - Poland
200 384	Construction, Engineering and Concession Agreements Segment - Baltic countries

The Management Board of the Parent Company refrained from presenting revenue from external customers by product and service due to the excessive cost of obtaining such information, which is in conformity with IFRS 8.

(figures in PLN '000, unless stated otherwise)

Operating segments

For the period from 1.01.2019 to 31.12.2019 *Audited*	Continued operations						
	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales to external customers	938 190	425 865	76 719	1 440 774	-	-	1 440 774
Sales between segments	3 551	9	1 325	4 885	-	(4 885)	-
Total segment revenues	**941 741**	**425 874**	**78 044**	**1 445 659**	**-**	**(4 885)**	**1 440 774**
Results							
Depreciation	25 620	11 793	663	38 076	-	-	38 076
Financial revenues - interests	660	3 083	459	4 202	-	(895)	3 307
Financial expenses - interests	13 918	3 143	87	17 148	-	(895)	16 253
Gross profit	**(176 102)**	**(137 776)**	**386**	**(313 492)**	**-**	**123**	**(313 369)**

(figures in PLN '000, unless stated otherwise)

For the period from 1.01.2018 to 31.12.2018

Audited

	Continued operations						
	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales to external customers	1 122 298	368 553	69 797	1 560 648	-	-	1 560 648
Sales between segments	9 447	109	226	9 782	-	(9 782)	-
Total segment revenues	**1 131 745**	**368 662**	**70 023**	**1 570 430**	**-**	**(9 782)**	**1 560 648**
Results							
Depreciation	19 682	11 113	612	31 407	-	-	31 407
Financial revenues - interests	585	3 593	183	4 361	-	(210)	4 151
Financial expenses - interests	8 007	2 647	43	10 697	-	(210)	10 487
Gross profit	**(94 381)**	**(25 300)**	**1 552**	**(118 129)**	**-**	**(9 275)**	**(127 404)**

(figures in PLN '000, unless stated otherwise)

As at 31.12.2019 *Audited*	**Continued operations**						
	Civil Building Segment - Poland	**Construction, Engineering and Concession Agreements Segment - Baltic countries**	**Other segments**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Segment assets	**1 145 628**	**519 117**	**84 130**	**1 748 875**	**-**	**(319 310)**	**1 429 565**
Assets not allocated to segments							54 755
Total assests							**1 484 320**
Segment liabilities*	**712 263**	**190 282**	**27 943**	**930 488**	**-**	**(104 468)**	**826 020**
Other disclosures:							
Capital expenditures	(5 697)	(7 837)	(1 692)	(15 226)	-	101	(15 125)
Impairment of non-financial assets	(9 800)	(128 815)	-	(138 615)	-	-	(138 615)

** short-term liabilities were allocated to assess segment*

(figures in PLN '000, unless stated otherwise)

As at 31.12.2018 *Audited*	Continued operations						
	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Segment assets	**1 100 925**	**617 070**	**57 751**	**1 775 746**	**-**	**(261 226)**	**1 514 520**
Assets not allocated to segments							28 416
Total assests							**1 542 936**
Segment liabilities*	**686 440**	**198 216**	**10 040**	**894 696**	**-**	**(99 252)**	**795 444**
Other disclosures:							
Capital expenditures	(20 289)	(8 931)	(4 010)	(33 230)	-	955	(32 275)
Impairment of non-financial assets	(444)	(24 243)	-	(24 687)	-	-	(24 687)

** short-term liabilities were allocated to assess segment*

(figures in PLN '000, unless stated otherwise)

Geographical segments

For the period from 1.01.2019 to 31.12.2019	**Continued operations**					
Audited	**Domestic**	**Abroad**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Revenues						
Sales to external customers	974 878	465 896	1 440 774	-	-	1 440 774
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	2 819	9	2 828	-	(2 828)	-
Total segment revenues	**977 697**	**465 905**	**1 443 602**	**-**	**(2 828)**	**1 440 774**

For the period from 1.01.2018 to 31.12.2018	**Continued operations**					
Audited	**Domestic**	**Abroad**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Revenues						
Sales to external customers	1 147 072	413 576	1 560 648	-	-	1 560 648
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	1 344	99	1 443	-	(1 443)	-
Total segment revenues	**1 148 416**	**413 675**	**1 562 091**	**-**	**(1 443)**	**1 560 648**

(figures in PLN '000, unless stated otherwise)

As at 31.12.2019 *Audited*	**Continued operations**					
	Domestic	**Abroad**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Operating assets	1 192 744	556 131	1 748 875	-	(319 310)	1 429 565
Segment liabilities*	737 838	192 650	930 488	-	(104 468)	826 020

** short-term liabilities were allocated to assess segment*

As at 31.12.2018 *Modified*	**Continued operations**					
	Domestic	**Abroad**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Operating assets	1 142 103	633 643	1 775 746	-	(261 226)	1 514 520
Segment liabilities*	712 148	182 548	894 696	-	(99 252)	795 444

** short-term liabilities were allocated to assess segment*

(figures in PLN '000, unless stated otherwise)

13. Revenue from contracts with customers

In accordance with IFRS 15.114, the Group presents recognised revenue from contracts with customers by the following categories:

• main types of products and/or services;

• geographic region;

• customer type;

• duration of the contract.

Main types of products and services	Year ended 31.12.2019 Audited	Year ended 31.12.2018 Audited
Revenues from sale of construction services	1 367 275	1 450 185
Revenues from sale of goods and materials	32 448	40 529
Revenues from sale of other products and services	7 212	5 874
Deliveries of products (switchgears, supporting structures, etc.)	10 628	23 880
Deliveries of goods and materials	2 400	22 717
Real estate development activities	5 968	11 839
Others	14 843	5 624
Total	**1 440 774**	**1 560 648**

	Year ended 31.12.2019 Audited	Year ended 31.12.2018 Audited
Domestic	973 646	1 118 687
Abroad	467 128	441 961
Total	**1 440 774**	**1 560 648**

A breakdown of sales of construction services is presented below. Other revenue from contracts with customers relate to sales of goods and materials as well as other products and services and amounted to PLN 41,050 thousand in 2019 (2018: PLN 62,790 thousand).

Allocation sales of construction services revenue by country	Year ended 31.12.2019 Audited	Year ended 31.12.2018 Audited
Poland	953 755	1 103 701
Lithuania	323 151	303 507
Sweden	47 513	10 175
Latvia	33 412	22 580
Hungary	304	3 678
Germany	836	1 359
Ukraine	40 753	52 858
Total	**1 399 724**	**1 497 858**

Allocation sales of construction services revenue by customers	Year ended 31.12.2019 Audited	Year ended 31.12.2018 Audited
General government	1 297 890	1 403 591
Private Sector	101 834	94 267
Total	**1 399 724**	**1 497 858**

(figures in PLN '000, unless stated otherwise)

Allocation sales of construction services revenue by time of lead time	Year ended 31.12.2019 Audited	31.12.2018 Audited
Contracts to 12 months	1 000 254	1 144 838
Contracts over 12 months	399 470	353 020
Total	**1 399 724**	**1 497 858**

Revenue from PKP PLK S.A. account directly for approx. 45% of consolidated sales revenue, and revenue from the Lithuanian Road Administration for approx. 14%.

The Group's revenue is recognised in three operating segments which, at the same time, are the reporting segments.

The above amounts concerning the breakdown of sales into domestic and export differ from the amounts disclosed in the note "Segment information" due to elimination of inter-segment sales described in Note 12.

The Company's Management Board negotiates the receipt from PKP PLK of payment for contractual claims pending before courts. As at the date of publication of this report, the total gross amount of these claims is PLN 156,800 thousand (gross amount together with interest capitalised as at the date of filing the statement of claim). Based on internal analyses and the opinions of external advisors, the Company takes court claims filed against contracting authorities into account in the budgets of long-term contracts. The amount of court claims filed by the Company against contracting authorities, accounted for in long-term contract budgets, was adjusted by the risk factor and the probability factor. The amount of claims recoverable by the Company ranges from PLN 35 million to PLN 50 million. The amount was estimated on the basis of expert opinions and estimates of the Company, based on historical data and analyses of individual contracts. The Management Board is not stating an exact amount of claims in the financial statements in the interest of pending negotiations with the contracting authority. In addition, the Parent Company included revenue from claims raised under a contract in the valuation of a significant road contract.

14. Operating expenses

Expenses by type:

	Year ended 31.12.2019 Audited	31.12.2018 Audited
Depreciation	38 076	31 407
Consumption of materials and energy	443 528	559 956
External services	758 775	798 715
Taxes and charges	7 013	6 676
Payroll	220 379	190 818
Social security and other benefits	37 731	49 399
Other types of costs	43 744	28 520
Total costs by type	**1 549 246**	**1 665 491**
Change in inventories, products and prepayments	30 461	50 198
Cost of manufacture of products for the entity's own needs (negative value)	(7 215)	(28 877)
Cost of sales, marketing and distribution (negative value)	(5 568)	(5 936)
General and administrative costs (negative value)	(66 882)	(58 329)
Manufacturing cost of products sold	**1 500 042**	**1 622 547**
Value of materials and goods sold	**8 973**	**22 343**
Cost of goods sold	**1 509 015**	**1 644 890**

(figures in PLN '000, unless stated otherwise)

Employee benefits expense:

Costs of remunerations and employees benefits:

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
Costs of payroll and employment termination benefits	210 228	177 283
Social security costs	32 243	42 654
Provisions for retirement pay and disability benefits	496	291
Provision for jubilee awards	645	440
Provision for unused leaves	7 072	7 298
Provision for bonuses	1 937	5 506
Employee benefits under Employee Pension Program	485	807
Other employee benefits	5 004	5 938
Total	**258 110**	**240 217**

The Parent Undertaking has established the Employee Capital Plan (PPK) for its employees. In consultation with the company union trade organisations, the Parent Undertaking selected the financial institution that is responsible for opening the PPK accounts for the employees. The PPK management agreement with PPK in PZU Specjalistyczny Fundusz Inwestycyjny Otwarty which is managed and represented by Towarzystwo Funduszy Inwestycyjnych PZU S.A. was signed on October 25, 2019, and the PPK operation agreement on November 12, 2019.

Contributions to PPK are calculated on the basis of a gross salary that is also the basis for calculating contributions to the retirement pension insurance. Basic payments made by the employer are 1.5% of the gross salary and basic payments made by an employee are 2% of the gross salary. Employees also receive a welcoming pay and an annual supplement from the state.

Any person who is of at least 18 but of not more than 55 years of age is included in PPK automatically, unless they submitted their resignation and after they have worked for 90 days. Employees older than 55 years old may access the programme at their own discretion.

At the Parent Undertaking's request, the Financial Supervision Authority decided to annul the Employee Pension Programme operated by the Company as at November 30, 2019.

(figures in PLN '000, unless stated otherwise)

Depreciation of fixed assets, amortisation of intangible assets and impairment losses recognised in profit or loss:

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
Items recognised in cost of goods sold		
Depreciation of fixed assets	32 612	27 751
Amortisation of intangible assets	807	962
Total	**33 419**	**28 713**
Items recognised in cost of sales, marketing and distribution		
Depreciation of fixed assets	94	108
Total	**94**	**108**
Items recognised in general and administrative costs		
Depreciation of fixed assets	3 244	1 475
Amortisation of intangible assets	1 319	1 111
Total	**4 563**	**2 586**
Depreciation of fixed assets	35 950	29 334
Amortisation of intangible assets	2 126	2 073
Total	**38 076**	**31 407**

15. Other operating revenue:

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
Reversal of provision including:	35	-
- for costs	35	-
Reinvoicing of costs	-	119
Received penalties and fines	-	168
Reimbursed costs of litigious proceedings	-	5
Surplus of stocktaking	144	23
Redeemed liabilities	342	2 760
Profit on sale of non-financial non-current assets	3 834	51 072
Profit from investment property rent	403	159
Valuation of investment property	-	346
Other	1 937	3 463
Total	**6 695**	**58 115**

On December 27, 2018 the Company signed a purchase agreement under which Trakcja PRKiI sold to Lotnicza 100 Spółka z o.o. with its registered office in Wrocław: the right to perpetual usufruct of property located at ul. Lotniczej 100 in Wrocław along with the ownership right to buildings and facilities on land plot no. 3/5, which constitute a separate property, of which the Company notified in Current Report 26/2018 of December 27, 2018. The agreement provides for specific administrative steps to be taken by the Company before the final payment of the price – for this reason, the deadline for payment was set by the parties for 15 September 2019. The Parent Company analysed the agreement in the light of the revenue recognition criteria laid down in the new IFRS 15. In the opinion of the Parent Company, the deferred payment date and the obligation to complete certain administrative steps do not result in deferring the recognition of revenue to subsequent years. In the view of the Parent Company (as well as of its external experts who carried out a legal analysis of certain conditions), there were grounds for recognising revenue based on the following criteria:

- on 27 December 2018, the title to the land was transferred to the buyer (which was confirmed by an entry in the relevant land and mortgage register);
- as at the date of signing the agreement, the company held an enforceable right to receive the consideration specified in the agreement;
- together with the transfer of ownership, the buyer derives rewards and bears the risks associated with the property received;
- the real estate was physically handed over to the buyer in 2018.

The agreement for the transfer of the right of perpetual usufruct of land (plot land no. 3/3 with an area of 0.0006 ha) was concluded on April 16, 2019. On April 26, 2019 the parties to the agreement of December 27, 2018 concluded Annex 1 thereto in order to amend section 6 para. 7 of the agreement so that it reads as follows:

"Pursuant to Article 558 § 1 of the Civil Code, the parties jointly agree to:

a) exclude the application of Article 557 of the Civil Code;

b) limit the statutory liability of the seller for any legal defects in the property in such a way as to exclude the buyer's right to withdraw from this purchase agreement under Article 560 § 1 of the Civil Code due to circumstances specified in § 1 para. 2 thereof;

c) extend the time limit referred to in Article 568 § 2 in conjunction with Article 576 of the Civil Code up to three years, provided that this time limit may not expire earlier than before the expiry of one month from the day on which the relevant court decision becomes final, according to which the application for usucaption is rejected or according to which usucaption is stated with a later date than the conclusion date of this agreement.

Simultaneously, the parties confirm that their intention from the conclusion of the purchase agreement is the inability to withdraw from the purchase agreement, under the statutory guarantee for legal defects under Article 560 § 1 of the Civil Code due to circumstances specified in § 1 para. 2 thereof".

On September 12, 2019 the parties to the agreement of December 27, 2018 concluded Annex 2 thereto in order to amend section 6 para. 1 of the agreement so that it reads as follows: "Mr. Marcin Lewandowski and Mr. Paweł Nogalski for the Seller undertake by March 15, 2020 to provide the buyer with the decision of the relevant common court on the acquisition of the right of perpetual usufruct of the property described in § 1 hereof, i.e. land plot 3/4 and 3/5 along with the ownership right to buildings located thereon (and also the right of perpetual usufruct of undeveloped land plot 3/3 with an area of 0.0006 ha (Land and Mortgage Register No. WR1K/00103043/5)) by usucaption as at the date no later than the conclusion date hereof, including the confirmation that it has become final.". This obligation was prolonged by Annex to June 30, 2020, however, the Management Board of the Parent Company takes into consideration the fact that as a result of the SARS CoV-2 pandemic the transaction may be deferred in time.

(figures in PLN '000, unless stated otherwise)

16. Other operating expenses

	Year ended	
	31.12.2019 Audited	**31.12.2018 Audited**
Established provisions for liabilities	360	178
- other	360	178
Paid fines, compensation	5 157	-
Litigation costs paid	1 179	296
Donations made	209	175
Shortages of inventories	1	114
Loss on disposal of non-financial fixed assets	2 426	-
Value of liquidated non-financial assets	2 220	110
Value of liquidated inventories	22	-
Establishment of an impairment loss on fixed assets	173	-
Written-off receivables	270	251
Other	4 195	1 333
Total	**16 212**	**2 457**

17. Finance income

	Year ended	
	31.12.2019 Audited	**31.12.2018 Audited**
Financial revenues from interest, including:	3 307	4 151
- bank interest	344	219
- interest on receivables	46	341
- of financial asset under the concession agreement	2 525	3 368
- other	392	223
Foreign exchante rate gain	542	-
Other financial revenues	92	2
Total	**3 941**	**4 153**

(figures in PLN '000, unless stated otherwise)

18. Finance costs

	Year ended	
	31.12.2019 Audited	**31.12.2018 Audited**
Financial costs on account of interest, including:	16 252	10 487
- interest on loans and borrowings	8 477	6 539
- on liabilities	3 265	1 499
- on leasing	3 884	2 111
- on liability from employee benefits	190	176
- other	436	162
Loss from exchange rate differences	-	1 233
Financial commision paid	8 251	2 097
Factoring related costs	-	21
Other financial costs	4 417	627
Total	**28 920**	**14 465**

(figures in PLN '000, unless stated otherwise)

19. Income tax

19.1. Current income tax

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
Gross profit	**(313 369)**	**(127 404)**
Differences between gross profit (loss) and income tax base (by title)		
- temporary differences, including:	**59 410**	**64 095**
depreciation and amortisation	(8 678)	6 599
revaluation write-offs	2 330	5 752
change in provisions	(342)	(5 816)
valuation of construction contracts	93	(129)
valuation of construction contracts	(5 676)	(50 732)
accrued interest	1 821	1 968
accrued FX differences	(424)	581
provision for losses on contracts	33 148	36 508
remuneration unpaid	2 971	671
investment property fair value adjustment	479	(168)
non-tax costs concerning performed contracts	28 751	68 880
non-tax revenues concerning performed contracts	(6 811)	11 495
other	11 748	(11 514)
- permanent differences, including:	**167 393**	**24 085**
contributions to PFRON (National Disabled Persons Rehabilitation Fund)	1 752	1 667
donations made	195	178
budget interest	1 710	348
insurance and membership fees	375	315
VAT difference	530	188
goodwill impairment	138 182	24 243
revaluation write-offs	1 915	(6 559)
other	22 734	3 705
Income (loss)	**(86 566)**	**(39 224)**
Taxable income	**14 048**	**10 922**
Deductions from income	**(1 926)**	**(5 096)**
- tax loss from previous years	(1 926)	(5 095)
- donations	-	(1)
Income tax base	**12 122**	**5 826**
Income tax	**2 259**	**1 062**
Current income tax recognized (disclosed) in the tax declaration for the period, including:	**2 259**	**1 062**
- included in the profit and loss	2 259	1 062

(figures in PLN '000, unless stated otherwise)

Income tax in the income statement:

	Year ended	
	31.12.2019 Audited	**31.12.2018 Audited**
Current income tax:	**257**	**692**
- current income tax charge	2 259	1 062
- adjustments related to current income tax from previous years	(2 002)	(370)
Deferred tax:	**(28 578)**	**(17 924)**
- related to increase and decrease in temporary differences	(28 578)	(17 924)
Total	**(28 321)**	**(17 232)**

A portion of income tax was determined at the rate of 19% of the corporate income tax base for entities operating in Poland. For the foreign companies of Trakcja Group, the tax rate between 1 January 2018 and the end of 2019 was 15% in Lithuania, 22% in Sweden, 18% in Belarus, 18% in Ukraine and 10% in Bulgaria.

Reconciliation of effective tax rate:

Reconciliation of corporate income tax on profit (loss) before tax computed at the statutory rate with corporate income tax computed at the Group's effective tax rate for the years ended 31 December 2019 and 31 December 2018 is presented in the following table:

	Year ended	
	31.12.2019 Audited	**31.12.2018 Audited**
Gross profit (loss)	**(313 369)**	**(127 404)**
Income tax at applicable income tax rate of 19%	(59 540)	(24 207)
Tax effect of the approach:		
Use of tax losses from previous years	(39)	(154)
Revaluation of deferred tax assets	804	141
Effect of varied interest rate within the Group	1 167	208
Tax-free income and other income deductions	-	2 787
Tax revenues not constituting accounting revenues	1 398	3 264
Tax costs not constituting accounting costs	(3 967)	(3 790)
Non-tax revenues constituting accounting revenues	(3 889)	(3 736)
Non-tax costs constituting accounting costs	35 745	8 255
Income tax expense at the effective tax rate 9% (2018: -14%)	**(28 321)**	**(17 232)**

(figures in PLN '000, unless stated otherwise)

19.2. Income tax recognised in other comprehensive income

	Year ended 31.12.2019 Audited	Year ended 31.12.2018 Audited
Revaluation gains charged to revaluation capital		
Included in the gross amount	1 572	-
Income tax	(299)	-
Included in the net amount	**1 273**	**-**
Actuarial gains (losses)		
Included in the gross amount	116	(326)
Income tax	(22)	54
Included in the net amount	**94**	**(272)**
Cash flow hedging instruments		
Included in the gross amount	(1 771)	260
Income tax	266	(39)
Included in the net amount	**(1 505)**	**221**
Foreign exchange differences on translation of foreign operations		
Included in the gross amount	(1 842)	8 657
Included in the net amount	**(1 842)**	**8 657**

The Group does not compute deferred tax on foreign exchange differences arising from translation of foreign subsidiaries in accordance with IAS 12, as it controls the timing of reversal of temporary differences and these differences will not reverse in the foreseeable future. The value of unrecognised deferred tax liabilities (whose recognition would be included in the Group's equity) amounted to PLN 2,409 thousand as at 31 December 2019.

19.3. Deferred income tax

The table below presents the impact of deferred tax assets and liabilities on profit or loss and equity:

	Year ended 31.12.2019 Audited	Year ended 31.12.2018 Audited
Deferred tax asset	**125 742**	**88 821**
- through profit or loss	125 583	88 701
- through equity	159	120
Provision for deferred tax	**77 714**	**69 263**
- through profit or loss	73 290	64 964
- through equity	4 424	4 299

The table below presents the final periods in which deferred income tax assets on tax loss may be settled in accordance with the Corporate Income Tax Act:

As at 31.12.2019	2020	2021	2022	2023	2024	Total
Defered tax assets concerning tax loss	2 443	9 219	10 127	9 230	5 168	**36 187**

As at 31.12.2018	2019	2020	2021	2022	2023	Total
Defered tax assets concerning tax loss	6 278	9 282	2 267	832	161	**18 820**

As at 31 December 2019, the Group did not recognise a deferred tax asset on tax loss of PLN 5,027 thousand (31 December 2018: PLN 6,833 thousand), as it is not probable that future taxable profit will be available against which the unused losses and unused tax credits can be utilised.

(figures in PLN '000, unless stated otherwise)

In accordance with the Corporate Income Tax Act, unrealised or written off assets on account of unused tax losses may be settled in the following periods:

As at 31.12.2019	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
The amount of not established/written down asset due to tax losses	2 922	1 018	948	70	69	**5 027**

As at 31.12.2018	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
The amount of not established/written down asset due to tax losses	2 935	2 904	984	9	1	**6 833**

(figures in PLN '000, unless stated otherwise)

Deferred tax assets Title of temporary differences	1.01.2018 Audited	Increase / Decrease	31.12.2018 Audited	Deconsolidation of subsidiaries	Increase / Decrease	31.12.2019 Audited
Provision for bonuses	1 908	(1 037)	871	-	121	992
Provision for the audit	40	5	45	-	4	49
Provision for correction works	2 847	(502)	2 345	-	419	2 764
Provision for losses on contracts	751	7 925	8 676	-	6 273	14 949
Provisions for retirement and pensions	796	(87)	709	-	50	759
Provision for jubilee awards	510	(70)	440	-	(209)	231
Provision for unused leaves	1 982	586	2 568	-	(450)	2 118
Valuation allowance for trade receivables	632	1 717	2 349	-	849	3 198
Valuation allowance for other current assets	148	(32)	116	-	(1)	115
Unrealized foreign exchange losses	86	(79)	7	-	26	33
Accrued interest on liabilities	8	272	280	-	409	689
Interest on receivable write-offs	235	(127)	108	-	1	109
Non-tax costs related to ongoing long-term contracts	34 228	10 717	44 945	-	7 954	52 899
Surpus of invoiced revenues over actual revenues - valuation of long-term contracts	1 437	2 346	3 783	-	3 802	7 585
The positive difference between the balance sheet depreciation and the tax depreciation	74	(26)	48	-	(2)	46
Tax loss	14 078	4 742	18 820	-	17 367	36 187
Unpaid wages and unpaid social security contributions	377	145	522	-	582	1 104
Other	1 938	(21)	1 917	779	(635)	2 061
Foreign exchange differences	(638)	910	272	-	(418)	(146)
Total before compensation	**61 437**	**27 384**	**88 821**	**779**	**36 142**	**125 742**
Deferred tax assets with deferred tax reserve compensation	(51 601)	(8 804)	(60 405)	-	(10 582)	(70 987)
Total after compensation	**9 836**	**18 580**	**28 416**	**779**	**25 560**	**54 755**

(figures in PLN '000, unless stated otherwise)

Deferred tax liability Title of temporary differences	**1.01.2018 Audited**	**Increase / Decrease**	**31.12.2018 Audited**	**Deconsolidation of subsidiaries**	**Increase / Decrease**	**31.12.2019 Audited**
Surplus of actual revenues over invoiced revenues - valuation of long-term contracts	16 978	11 892	28 870	-	5 407	34 277
Non-tax revenue relating to long-term contracts	14 349	(2 184)	12 165	-	1 294	13 459
The negative difference between the balance sheet depreciation and the tax depreciation	20 306	(2 258)	18 048	-	1 651	19 699
Unrealized foreign exchange profits	46	1	47	-	35	82
Interest accrued on deposits, on financial assets	258	(102)	156	-	63	219
The right to perpetual usufruct	734	(367)	367	-	244	611
Revaluation of fixed assets to fair value	3 355	(1 204)	2 151	-	(94)	2 057
Investment property fair value adjustment	1 917	(32)	1 885	-	91	1 976
Other	2 134	3 070	5 204	-	264	5 468
Foreign exchange differences	(666)	1 036	370	-	(504)	(134)
Total before compensation	**59 411**	**9 852**	**69 263**	**-**	**8 451**	**77 714**
Deferred tax assets with deferred tax reserve compensation	(51 601)	(8 804)	(60 405)	-	(10 582)	(70 987)
Total after compensation	**7 810**	**1 048**	**8 858**	**-**	**(2 131)**	**6 727**

The Group decided not to present movements in the period broken down into portions recognised in profit or loss and in equity due to minor significance of movements affecting the revaluation reserve.

(figures in PLN '000, unless stated otherwise)

20. Discontinued operations

No operations were discontinued in 2019 or 2018.

21. Earnings (loss) per share:

For each period, earnings per share are computed as the quotient of the net profit attributable to shareholders of the Parent Company for the period and the weighted average number of shares in the period. Diluted earnings per share for a reporting period are calculated by dividing net profit attributable to shareholders of the of the Parent Company for the period by the sum of the weighted average number of shares outstanding in the reporting period and all potential dilutive shares.

Earnings (loss) per share:

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
Net profit (loss) from continued operations	(285 048)	(110 172)
Net profit applied to calculate diluted earnings per share	(285 048)	(110 172)
Net profit attributable to shareholders of Parent entity applied to calculate diluted earnings per share	(285 430)	(111 006)
Number of issued shares (pcs)	**86 450 976**	**51 399 548**
Weighted average number of issued ordinary shares applied to calculate basic earnings per share (pcs)	54 472 550	51 399 548
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings per share	54 472 550	51 399 548

Earnings (loss) per share attributable to shareholders during the period (in PLN per share):

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
- basic	(5,23)	(2,14)
- diluted	(5,23)	(2,14)

Earnings (loss) per share from continuing operations attributable to shareholders during the period (in PLN per share):

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
- basic	(5,23)	(2,14)
- diluted	(5,23)	(2,14)

(figures in PLN '000, unless stated otherwise)

Earnings (loss) per share attributable to shareholders of the Parent Company during the period (in PLN per share):

	Year ended	
	31.12.2019 Audited	**31.12.2018 Audited**
- basic	(5,24)	(2,16)
- diluted	(5,24)	(2,16)

22. Property, plant and equipment

Structure of fixed assets:

	31.12.2019 Audited	**31.12.2018 Audited**
Fixed assets, including:	285 967	265 685
- land (including right of perpetual usufruct)	25 722	20 396
- buildings, premises, civil and water engineering structures	52 215	16 117
- technical equipment and machines	119 419	131 607
- vehicles	78 804	85 714
- other fixed assets	9 807	11 851
Fixed assets under construction	261	31 600
Total	**286 228**	**297 285**

In 2019, the Parent Undertaking completed the construction of OIU Wrocław Bieńkowice, which resulted in this fixed asset being reclassified from "Tangible assets under construction" (as at December 31, 2018) to "Buildings, premises, civil and water engineering structures" (as at December 31, 2019). The value of the aforementioned reclassification was PLN 28,627 thousand. The total book value (land, buildings and the entire infrastructure) of OIU Wrocław Bieńkowice as at December 31, 2019 was PLN 41,039 thousand.

Movements in fixed assets:

Financial year ended 31.12.2019 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	**36 513**	**131 607**	**85 714**	**11 851**	**31 600**	**297 285**
Increases - purchase	7 618	7 960	5 126	1 936	1 700	24 340
Other increases	14 568	1 155	356	-	-	16 079
Movements between categories	29 253	-	1 970	32	(31 255)	-
Sale	(344)	(6 046)	(767)	(109)	(2 162)	(9 428)
Liquidation	(269)	-	(2 815)	(48)	-	(3 132)
Depreciation	(7 221)	(14 626)	(10 653)	(3 450)	-	(35 950)
Deconsolidation of subsidiaries	(111)	(341)	(53)	(398)	-	(903)
Other decreases	(2 009)	(4)	-	-	(2)	(2 015)
Variances due to currency translation	(61)	(286)	(74)	(7)	380	(48)
Net book value at the end of the year	**77 937**	**119 419**	**78 804**	**9 807**	**261**	**286 228**

(figures in PLN '000, unless stated otherwise)

As at 31.12.2019 **Audited**						
(Gross) cost or value from valuation	113 976	283 123	174 726	44 174	104	616 103
Depreciation and impairment write-offs	(35 978)	(163 418)	(95 848)	(34 360)	(223)	(329 827)
Variances due to currency translation	(61)	(286)	(74)	(7)	380	(48)
Net book value	**77 937**	**119 419**	**78 804**	**9 807**	**261**	**286 228**

The Group has applied IFRS16 since 1 January 2019, which resulted in an increase in "Other increases" by PLN 12,660 thousand.

Financial year ended 31.12.2018 **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	**39 919**	**126 130**	**70 770**	**12 346**	**17 688**	**266 853**
Increases - purchase	369	16 421	25 073	2 861	15 944	60 668
Beginning of the subsidiary's consolidation	-	102	33	1	1 614	1 750
Movements between categories	1 811	1 556	439	-	(3 806)	-
Sale	(2 754)	(125)	(570)	(2)	-	(3 451)
Liquidation	-	(97)	(767)	(11)	-	(875)
Depreciation	(2 379)	(13 594)	(9 741)	(3 618)	-	(29 332)
Transfer to assets held for sale	(763)	-	-	-	-	(763)
Other decreases	(19)	-	-	-	-	(19)
Variances due to currency translation	329	1 214	477	274	160	2 454
Net book value at the end of the year	**36 513**	**131 607**	**85 714**	**11 851**	**31 600**	**297 285**

As at 31.12.2018 **Audited**						
(Gross) cost or value from valuation	70 878	280 141	174 066	43 026	31 657	599 768
Depreciation and impairment write-offs	(34 694)	(149 748)	(88 829)	(31 449)	(217)	(304 937)
Variances due to currency translation	329	1 214	477	274	160	2 454
Net book value	**36 513**	**131 607**	**85 714**	**11 851**	**31 600**	**297 285**

In 2018, the Parent Company signed an agreement transferring the ownership right to the gravel cleaning machine and 6 conveyors to mLeasing Sp. z o.o., and subsequently entered them into the records under leaseback contracts. From the formal point of view, the above fixed assets were sold and re-purchased (under a lease contract), but from the IFRS point of view, the sale and re-purchase transactions should be treated together as contracting an asset-backed loan, as under SIC-27 the transaction was an asset-backed loan, under which the company obtained funds in the net amount of PLN 17,061 thousand. As a result, the above movements with respect to the acquisition and sale of property, plant and equipment do not include the value of the fixed assets covered by the above contracts.

(figures in PLN '000, unless stated otherwise)

Ownership structure of fixed assets:

Ownership structure of fixed assets:	**31.12.2019 Audited**	**31.12.2018 Audited**
Proprietary	171 050	192 241
Used on the basis of lease, rental or other agreement, including leasing agreement	115 178	105 044
Total	**286 228**	**297 285**

As lessee, Trakcja Group uses the following items of property, plant and equipment under a finance lease contract:

As at 31.12.2019 Audited	**Land, buildings and structures**	**Machines and equipment**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Total**
Value at the beginning of the period	5 265	53 054	59 916	-	-	**118 235**
Acumulated depreciation	(56)	(5 266)	(6 678)	-	-	**(12 000)**
Net book value	**5 209**	**47 788**	**53 238**	**-**	**-**	**106 235**

As at 31.12.2018 Audited	**Land, buildings and structures**	**Machines and equipment**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Total**
Value at the beginning of the period	-	56 449	65 886	133	-	**122 468**
Acumulated depreciation	-	(7 938)	(9 428)	(58)	-	**(17 424)**
Net book value	**-**	**48 511**	**56 458**	**75**	**-**	**105 044**

Under the perpetual usufruct right, the Group holds land classified as Land, buildings and structures with a net value of PLN 24,400 thousand (31 December 2018: PLN 18,963 thousand).

Information on property, plant and equipment pledged as collateral is presented in Note 53.

(figures in PLN '000, unless stated otherwise)

23. Investment property

The table below presents changes in investment properties during the year:

	Year ended 31.12.2019 Audited	Year ended 31.12.2018 Audited
As at start of period (by type groups):	**20 445**	**20 097**
- land	17 819	17 600
- buildings, premises, civil and water engineering structures	2 626	2 497
Increases:	**2 236**	**680**
- land	2 236	551
- revaluation	-	549
- increases due to IFRS 16	2 236	-
- exchange rate differences	-	2
- buildings, premises and civil engineering works	-	129
- update of value	-	129
Decreases	**(234)**	**(332)**
- land	(206)	(332)
- revaluation	(205)	(332)
- exchange rate differences	(1)	-
- buildings, premises, civil and water engineering structures	(28)	-
- revaluation	(28)	-
As at end of period (by type groups):	**22 447**	**20 445**
- land	19 849	17 819
- buildings, premises, civil and water engineering structures	2 598	2 626

The Group recognises investment properties at fair value. Fair value of the Group's investment properties as at December 31, 2019 and December 31, 2018 was estimated based on the valuation carried out as at those days by an independent expert with suitable professional qualifications in evaluating properties and with up-to-date experience in evaluating properties at the locations similar to those of the Group's assets. The Group also verifies the obtained opinions on fair value by analysing the data derived from the active market (market prices) of similar investment properties with similar location and in similar condition. Such analyses are carried out by persons who have knowledge of the market.

The Group's buildings classified as investment properties are measured applying the cost method. In accordance with IFRS 13, the cost method reflects the amount that would be necessary at a given moment in order to recreate the rate of return on a given asset (often called the current replacement cost). In many situations, the current replacement cost method is used for establishing fair value of mineral assets that are used in combination with other assets or with other assets and liabilities. The properties measured fall into the category of the regional market, and their construction elements are measured using the cost-based approach, the cost replacement method and the analysis ratios and integrated elements.

Fair value of land that forms part of the investment properties is measured through the reference to the market transaction prices for similar properties (comparable method). Comparative approach involves the measurement of the property based on the assumption that its value should be equal to the price for similar properties traded on the market, adjusted considering characteristics that differ such properties (i.e. location, development or surface) and determined taking into account changes in prices in time. Sensitivity analysis

demonstrates that the comparable method is sensitive to changes in the prices of similar properties selected for evaluation.
The „Złoże kruszywa naturalnego Nowowola" property owned by PEUiM Sp. z o.o. was measured using the income method and the discounted income flow approach. This approach is based on the expected cash flows, unadjusted for risk, and the adjusted discount rate which takes into account a risk premium required by the participants in the market. The rate was calculated using the CAPM model and adopted at 11.48%. The valuation was based on the 10-year projections of income on the property. The value of income on the property was determined by the analysis of the local market data and the details regarding the deposit resources. The residual value of land after the completion of deposit production was determined on the basis of the analysis of average transaction prices for low-graded agricultural land in the Podlaskie Province. The income method is sensitive to the discount rate and the expected income flows from the property.

Sensitivity analysis shows that the market valuation model is sensitive mainly to the prices of similar properties selected for evaluation, and the cost model is sensitive to the replacement cost and the adopted degree of wear and tear.

Fair value is determined using techniques and methods which are appropriate considering the circumstances and for which sufficient data is available, with the maximum use of the relevant observable inputs and the minimum use of the unobservable inputs.

An effect of unobservable inputs on fair value of properties, depending on the measurement method adopted, is presented below.

(figures in PLN '000, unless stated otherwise)

	Valuation technique used	Unobservable input data	Link between unobservable input data and fair value
Office - land	Comparative approach	Location (20%) Accessibility (20%) Function in development plan/study (20%) Development state, size and shape of the plot (20%) Location, accessibility (10%) Ownership form (10%)	these factors affect the value of the weighting adopted in measuring the fair value of real estate
		Average market price of comparable real estate	an increase in the market value of comparable real estate will increase the fair value of real estate
Office and warehouse properties	Cost approach	Replacement cost value	increase in the replacement cost will increase the fair value of real estate
		Requisite degree of technical wear 50%-85%	higher the degree of technical wear adversely affect the fair value of the property
Land properties	Comparative approach	Location (35%) Accessibility (20%) Development state (25%) Size and shape of the plot (20%)	these factors affect the value of the weighting adopted in measuring the fair value of real estate
		Average market price of comparable real estate	Average market price of comparable real estate
Deposits of natural aggregates	Income approach	Discount rate 8,76%	an increase in the discount rate would decrease the fair value of the property
		Wealth deposits 1 882,83 ths. tonnes	the expected size of the deposit growth will increase in the fair value of real estate
		Average sales price of aggregate 16,00 PLN/Mg	increase in the average sales price of aggregate will increase the fair value of the property

In 2019 the measurement method remained unchanged.

Investment properties were measured by an independent expert based on the market data as at December 31, 2019.

Fair value of the properties was estimated applying the most beneficial and the most advantageous use of the properties (the current use of such properties).

The measurement of investment properties as at December 31, 2019 demonstrated a decrease in their value in the amount of PLN 234 thousand which was recognised in the other operating costs.

(figures in PLN '000, unless stated otherwise)

Details of the fair value hierarchy as at 31 December 2019 and 31 December 2018:

	31.12.2019 Audited	Level 1	Level 2	Level 3
Investment property:	**22 447**	**-**	**-**	**22 447**
Offices	17 875	-	-	17 875
Land	1 974	-	-	1 974
Deposits of natural aggregates	2 598	-	-	2 598

	31.12.2018 Audited	Level 1	Level 2	Level 3
Investments property	**20 445**	**-**	**-**	**20 445**
Offices	15 785	-	-	15 785
Land	2 048	-	-	2 048
Deposits of natural aggregates	2 612	-	-	2 612

Level 1 – quoted market prices for similar assets or liabilities in active markets;

Level 2 – prices in active markets other than the quoted market prices – set directly (by comparison with actual transactions) or indirectly (by application of measurement methods based on actual transactions);

Level 3 – prices other than prices in active markets.

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

Reconciliation of the opening and closing balance of goodwill is as follows:

	Year ended	
	31.12.2019 Audited	**31.12.2018 Audited**
As at the beginning of the period (Level 3)	**20 445**	**20 097**
Increases due to IFRS 16	2 236	-
Gains (losses) recognized in profit and loss account	(233)	346
Exchange rate differences	(1)	2
As at the end of the period (Level 3)	**22 447**	**20 445**
Unrealised profits (losses) in the period recognised in P&L (as other operating costs or revenues)	(233)	346

Rental income and direct operating expenses related to investment property were as follows:

	Year ended	
	31.12.2019 Audited	**31.12.2018 Audited**
Rental income from investment property	592	368
Direct operating costs from investment property that during the period generated rental income	458	209

No Investment property was pledged as collateral, as described in detail in Note 53.

24. Goodwill on consolidation

As at the balance sheet date, the Group's consolidated financial statements contain goodwill with a total value of PLN 217,715 thousand (31 December 2018: PLN 357,514 thousand), recognised in the following balance sheet items:

(figures in PLN '000, unless stated otherwise)

- goodwill on consolidation: PLN 168,983 thousand (31 December 2018: PLN 308,782 thousand);

- intangible assets: PLN 48,732 thousand (31 December 2018: PLN 48,732 thousand).

Goodwill on consolidation

	31.12.2019 Audited	31.12.2018 Audited
Goodwill at cost	392 940	394 557
Acumulated impairment	(223 957)	(85 775)
Goodwill after all write-offs	**168 983**	**308 782**

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
Balance at the beginning of the period	**308 782**	**327 996**
Decreases	**(138 182)**	**(24 243)**
Impairment charged to P&L during the year	(138 182)	(24 243)
Exchange rate differences	**(1 617)**	**5 029**
Balance at the end of the period	**168 983**	**308 782**

Allocation of goodwill to cash-generating units ("CGUs") net of impairment losses

For the purpose of impairment testing as at 31 December 2019, goodwill was allocated to the following cash-generating units:

As at 31.12.2019 Audited	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Spółki z Gr.AB Kauno Tiltai	CGU: PRK7 Nieruchomości	Total
Allocated goodwill before recognition of write-downs	**58 160**	**28 374**	**126 401**	**4 780**	**217 715**
recognized in goodwill on consolidation	9 428	28 374	126 401	4 780	168 983
recognized in intangible assets	48 732	-	-	-	48 732

As at 31.12.2018 Audited	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Spółki z Gr.AB Kauno Tiltai	CGU: PRK7 Nieruchomości	Total
Allocated goodwill before recognition of write-downs	**58 160**	**37 741**	**256 833**	**4 780**	**357 514**
recognized in goodwill on consolidation	9 428	37 741	256 833	4 780	308 782
recognized in intangible assets	48 732	-	-	-	48 732

Goodwill impairment test

As at 31 December 2019, goodwill allocated to all cash-generating units was tested for impairment. The recoverable amount of CGUs is determined by calculating the value in use. These calculations use five-year projections of cash flows. The growth rate in the residual period was set at 2% and it does not exceed the long-term inflation rate. The Management Board determines the budgeted margin on the basis of historical performance, updated contract budgets and its projections regarding market growth. Weighted average growth rates are consistent with the projections presented in industry reports. The discount rate applied is a pre-tax rate reflecting specific threats to individual segments not included in the cash flow projections, calculated using the CAPM model.

(figures in PLN '000, unless stated otherwise)

Impairment tests were carried out as at the balance sheet date, according to the best knowledge at the time of their preparation. A systemic factor that may affect the future measurement of all assets, in particular financial assets (in the separate financial statements) and goodwill in the consolidated financial statements is the Covid-19 pandemic. At the time of preparing these statements, it is not possible, for objective reasons, to make an overall assessment of the impact of the pandemic on test results. When assessing potential effects specific to the company, the following factors can be distinguished (with indication of their direction):

- decrease in the cost of debt financing due to the decrease in interest rates (+),
- increase in risk factors for cash generating units on the Polish and Lithuanian markets (-),
- potential decrease in labour costs and increase in labour availability (+),
- improvement of competitive position in relation to other contractors due to insignificant share of foreigners in the employment structure (+),
- potential disruptions to the continuity of contract performance due to prolonged administrative decisions (-),
- change in prices of key materials, including: (1) potential decrease in the price of petroleum-based materials (e.g. asphalt) (+), (2) potential increase in material prices due to disruption of supply chains (-),
- stimulation of the economy through governmental infrastructure investment programmes (+),
- weakening of PLN against EUR and USD and potential volatility of exchange rates (+/-),
- increased risk of payment backlogs and even insolvency (-).

Main assumptions adopted for goodwill impairment testing:

As at 31.12.2019	**CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.**	**CGU: PRK7 Nieruchomości**	**CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.**	**CGU: Companies from AB Kauno Tiltai Group**
WACC before taxation	12,6%	12,5%	12,5%	11,3%
WACC after taxation	10,6%	10,6%	10,6%	10,0%
EBITDA margin	3,4% - 8,7%	1,4% - 4,8%	5,2% - 9,1%	3.5% - 7.2%
Growth rate in the residual period	2,0%	2,0%	2,0%	2,0%

As at 31.12.2018	**CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.**	**CGU: PRK7 Nieruchomości**	**CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.**	**CGU: Companies from AB Kauno Tiltai Group**
WACC before taxation	12,8%	12,7%	12,7%	10,2%
WACC after taxation	10,5%	10,5%	10,5%	8,9%
EBITDA margin	3,2% - 8%	1,8% - 10%	4,5% - 11,2%	3,7% - 7,3%
Growth rate in the residual period	2,0%	2,0%	2,0%	2,0%

As at 31 December 2019, the impairment test carried out resulted in the impairment of goodwill allocated to CGU comprising companies from the AB Kauno Tiltai group in the amount of PLN 128,815 thousand and CGU comprising PEUiM Sp. z o.o., Dalba Sp. z o.o. and PDM S.A. in the amount of PLN 9,367 thousand. The impairment loss was presented in a separate item of the consolidated income statement. As at 31 December 2018, the impairment test carried out resulted in the impairment of goodwill allocated to CGU comprising companies from the AB Kauno Tiltai Group in the amount of PLN 24,243 thousand.

The sensitivity analysis carried out indicates that significant factors affecting the estimates of the value in use of cash-generating units include profitability of construction contracts in progress and the discount rate used.

(figures in PLN '000, unless stated otherwise)

Below is presented an analysis of the sensitivity of the recoverable amount of cash-generating units to changes in individual indicators used in the impairment test, using the after-tax discount rate.

Sensitivity analysis for CGU comprising: Trakcja PRKiI, Torprojekt Sp. z o.o. and BTW Sp. z o.o.

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 2,5%	17 193	(17 193)
WACC	+/- 0,25 p.p.	(10 176)	10 756

The Group analysed the sensitivity of the change in EBITDA by +/- 2.5% and in after-tax WACC by +/-0.25 p.p., which led to the conclusion that a reasonable change in assumptions would not trigger the need to recognise an impairment loss.

Sensitivity analysis for CGU comprising: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM Białystok S.A.

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 2,5%	1 938	(1 938)
WACC	+/- 0,25 p.p.	(1 379)	1 461

For the above CGUs, an impairment loss was recognised as at 31 December 2019, therefore any additional change in the above parameters would result in a change in the recognised impairment loss on goodwill.

Sensitivity analysis for CGU comprising companies from the AB Kauno Tiltai Group

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 2,5%	10 626	(10 626)
WACC	+/- 0,25 p.p.	(8 085)	8 625

For the above CGUs, an impairment loss was recognised as at 31 December 2019, therefore any additional change in the above parameters would result in a change in the recognised impairment loss on goodwill.

Sensitivity analysis for CGU comprising PRK7 Nieruchomości

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 2,5%	841	(841)
WACC	+/- 0,25 p.p.	(798)	844

The Group analysed the sensitivity of the change in EBITDA by +/- 2.5% and in after-tax WACC by +/-0.25 p.p., which led to the conclusion that a reasonable change in assumptions would not trigger the need to recognise an impairment loss.

Impairment tests were carried out as at the balance sheet date, according to the best knowledge at the time of their preparation. A systemic factor that may affect the future measurement of all assets, in particular financial assets (in the separate financial statements) and goodwill in the consolidated financial statements is the Covid-19 pandemic. At the time of preparing these statements, it is not possible, for objective reasons, to make an overall assessment of the impact of the pandemic on test results. When assessing potential effects specific to the Group, the following factors that may affect test results in subsequent reporting periods can be distinguished (with indication of their direction):

(figures in PLN '000, unless stated otherwise)

- decrease in the cost of debt financing due to the decrease in interest rates (+);
- increase in risk factors (the so-called country risk premium) for cash generating units on the Polish and Lithuanian markets (-);
- potential decrease in labour costs and increase in labour availability (+);
- improvement of competitive position in relation to other contractors due to insignificant share of foreigners in the employment structure (+);
- potential disruptions to the continuity of contract performance due to prolonged administrative decisions (-);
- change in prices of key materials, including: (1) potential decrease in the price of petroleum-based materials (e.g. asphalt) (+), (2) potential increase in material prices due to disruption of supply chains (-);
- stimulation of the Polish and Lithuanian economy through governmental infrastructure investment programmes (+);
- weakening of PLN against EUR and USD and potential volatility of exchange rates (+/-);
- potential increase in risk of payment backlogs and even insolvency of consortium partners and subcontractors (-).

Given the number of variables and uncertainties related to the direction of the pandemic's development as well as its effects, the result of future impairment tests may fluctuate beyond the levels of reasonable change in key assumptions assumed at the date of approval of the financial statements for publication.

25. Intangible assets

Structure of intangible assets:

	31.12.2019 Audited	31.12.2018 Audited
Research and development costs	756	1 470
Goodwill	48 732	48 733
Acquired concessions, patents, licences and similar items of value	1 342	1 796
- software	1 019	1 499
Other tangible non-current assets	-	2
Intangible assets under construction	559	347
Total	**51 389**	**52 348**

(figures in PLN '000, unless stated otherwise)

Movements in intangible assets:

Financial year ended 31.12.2019 Audited	Research and development expenses	Goodwill	Software licences	Other licences, concessions, patents	Other intangible assets	Intangible assets under construction	Total
Net book value at the beginning of the year	**1 470**	**48 733**	**1 499**	**297**	**2**	**347**	**52 348**
Increases	-	-	893	85	-	212	**1 190**
Liquidation	-	-	(12)	-	-	-	**(12)**
Amortization	(714)	-	(1 357)	(53)	(2)	-	**(2 126)**
Variances due to currency translation	-	(1)	(4)	(6)	-	-	**(11)**
Net book value at the end of the year	**756**	**48 732**	**1 019**	**323**	**-**	**559**	**51 389**

As at 31.12.2019 Audited	Research and development expenses	Goodwill	Software licences	Other licences, concessions, patents	Other intangible assets	Intangible assets under construction	Total
(Gross) cost or value from valuation	8 926	48 733	10 890	750	714	559	**70 572**
Amortization and impairment write-offs	(8 170)	-	(9 867)	(421)	(714)	-	**(19 172)**
Variances due to currency translation	-	(1)	(4)	(6)	-	-	**(11)**
Net book value	**756**	**48 732**	**1 019**	**323**	**-**	**559**	**51 389**

(figures in PLN '000, unless stated otherwise)

Financial year ended 31.12.2018 Audited	Research and development expenses	Goodwill	Software licences	Other licences, concessions, patents	Other intangible assets	Intangible assets under construction	Total
Net book value at the beginning of the year	**2 010**	**48 732**	**2 176**	**352**	**5**	**478**	**53 753**
Increases	91	-	406	8	-	163	**668**
Movements	294	-	-	-	-	(294)	**-**
Liquidation	-	-	(12)	-	-	-	**(12)**
Amortization	(926)	-	(1 082)	(64)	(3)	-	**(2 075)**
Other decreases	-	-	(10)	-	-	-	**(10)**
Variances due to currency translation	1	1	21	1	-	-	**24**
Net book value at the end of the year	**1 470**	**48 733**	**1 499**	**297**	**2**	**347**	**52 348**

As at 31.12.2018 Audited							
(Gross) cost or value from valuation	8 865	48 732	9 947	708	668	347	**69 267**
Amortization and impairment write-offs	(7 396)	-	(8 469)	(412)	(666)	-	**(16 943)**
Variances due to currency translation	1	1	21	1	-	-	**24**
Net book value	**1 470**	**48 733**	**1 499**	**297**	**2**	**347**	**52 348**

(figures in PLN '000, unless stated otherwise)

Ownership structure of intangible assets:

	31.12.2019 Audited	31.12.2018 Audited
Proprietary	51 389	52 348
Total	**51 389**	**52 348**

In 2019 and 2018, the Group did not recognise expenses in the income statement which were not capitalised in intangible assets as research and development expenses.

No intangible assets have been pledged as collateral.

26. Other financial assets

	31.12.2019 Audited	31.12.2018 Audited
Financial assets valued at amortised cost	**18 901**	**18 284**
Bank guarantees deposits	14 173	15 994
Other bank deposits	4 728	2 290
Total	**18 901**	**18 284**
including:		
- recognised as non-current assets	6 202	4 511
- recognised as current assets	12 699	13 773

In 2019, there was no impairment of individual financial assets. Following the entry into force of IFRS 9 on 1 January 2018, the Group recognised deposits under bank guarantees as well as loans and receivables granted as assets measured at amortised cost.

The financial assets related to concession agreement are described in detail in Note 50 of the Notes to the consolidated annual financial statements for 2019.

27. Joint operations

27.1. Jointly controlled operations – contracts performed in consortia

The Group performs certain long-term contracts under consortium agreements, as the consortium leader, without establishing separate entities. The Group recognises shares in such contracts as shares in joint operations in accordance with IFRS 11. Therefore, the Group does not recognise in profit or loss any such part of the revenues or costs related to such contracts as is attributable to the consortium members.

(figures in PLN '000, unless stated otherwise)

28. Prepayments

Prepayments by type:

	31.12.2019 Audited	31.12.2018 Audited
Prepayments, including:	21 401	20 799
- insurance and insurance guarantees	16 616	15 536
- remonty	497	-
- PKP (Polish Railways) identification documents	-	27
- repair and maintenance of wagons, locomotives	4 288	5 236
Other prepayments and accruals	1 352	1 584
Total	**22 753**	**22 383**

Prepayments by age:

	31.12.2019 Audited	31.12.2018 Audited
Long-term	6 179	9 070
Short-term	16 574	13 313
Total	**22 753**	**22 383**

29. Inventories

	31.12.2019 Audited	31.12.2018 Audited
Materials	110 171	68 693
Semi-finished goods and products in progress	16 476	5 172
Finished goods	651	4 727
Merchandise	9 021	9 022
Total, gross inventory	**136 319**	**87 614**
Inventory revaluation write-offs	**(929)**	**(760)**
Materials	109 290	67 980
Semi-finished goods and products in progress	16 476	5 172
Finished goods	624	4 700
Merchandise	9 000	9 002
Total, net inventory	**135 390**	**86 854**

Costs of inventories recognised in operating expenses of the current period amounted to PLN 342,675 thousand (PLN 505,164 thousand in 2018).

(figures in PLN '000, unless stated otherwise)

Change in impairment losses on inventories:

	Year ended	
	31.12.2019 Audited	**31.12.2018 Audited**
Balance at the beginning of the period	**760**	**634**
Increases	**200**	**112**
Establishment	200	112
Decreases	**(41)**	**-**
Use	(5)	-
Dissolution	(36)	-
Exchange rate differences	**10**	**14**
Balance at the end of the period	**929**	**760**

The recognition and reversal of impairment losses on inventories were included in "Cost of sales" in the consolidated income statement. Impairment losses on inventories are recognised in accordance with the principles set out in Note 9.13.

Inventories have been pledged as collateral, as described in Note 53.

30. Trade and other receivables

Structure of trade and other receivables:

	31.12.2019 Audited	**31.12.2018 Audited**
Gross trade receivables, before discounting	**324 865**	**288 003**
Total, gross trade receivables	**324 865**	**288 003**
including:		
- receivables from related entities	-	*1 607*
Budgetary receivables	3 612	2 960
Receivables claimed in court	4 865	3 884
Receivables from sale of property	53 000	53 000
Other receivables from third parties	49 353	28 804
Amounts held	36 729	23 921
- amounts held from related entities	-	*2 431*
Advances paid	3 920	842
Total, gross trade and other receivables	**476 344**	**401 414**
Expected credit loss	(76 595)	(72 524)
Total	**399 749**	**328 890**

Receivables from related parties are disclosed in Note 55.

In the calculation of the expected credit loss, the Capital Group applies a practical simplification in accordance with IFRS 9 - lifetime expected credit losses on trade receivables are assessed in terms of "age table of past due receivables". Requirements:

- Based on historical experience
- Determines fixed % of allowances
- The tables differ depending on the historical experience of each customer group

(figures in PLN '000, unless stated otherwise)

For trade receivables, the Capital Group applies a portfolio approach whereby historical data on the ratio of uncollected receivables to total receivables that have reached a specified delinquency bracket for each risk category are analysed. The Capital Group has defined the following brackets:

- Paid on or before the due date
- Paid up to 30 days after the due date
- Paid 31-90 days after the due date
- Paid 91-180 days after the due date
- Paid 181-365 days after the due date
- Paid later than 365 days after the due date
- Unpaid

For two financial years prior to the year under analysis (T-2 and T-1), the Group determines how many invoices issued during the year were finally paid in each of the brackets. On this basis, the next statement is created - a cumulative statement of total sales on invoices for subsequent periods (how many of the invoices issued in a given year were in the bracket of 0-30 days past due for at least 1 day, how many invoices were in the bracket of 31-60 days for at least 1 day, etc. up to the amount of invoices that were never paid).

The amount of receivables unpaid is applied to each of the aggregated amounts in order to calculate the portion of the receivables in a given bracket that will not be recovered. This percentage is used as the allowance ratio for the bracket. The amount of unpaid receivables may be adjusted either upwards or downwards depending on the Group's expectations concerning future non-recoverable amounts due to trends in the factors affecting the recoverability of receivables.

weights are assigned to the allowance ratios for each year under review and the weighted average allowance ratio is calculated for each bracket.

This calculation method ensures calculation of future expected credit losses based on historical loss experience for each age bracket of receivables and enables modification of the allowance ratio for expected changes in the recoverability of receivables.

Trade receivables and retentions:

	31.12.2019 Audited	31.12.2018 Audited
Net trade receivables		
With maturity within 12 months	354 568	253 979
With maturity over 12 months	8 644	9 579
Total, net trade receivables after discounting	**363 212**	**263 558**

Receivables maturing in more than 12 months include retentions which serve as additional security for the proper performance of contracts.

The Group decided not to recognise the discount of long-term receivables due to their immateriality.

(figures in PLN '000, unless stated otherwise)

The maturity structure of total retentions is presented in the table below:

	31.12.2019 Audited	31.12.2018 Audited
Up to 12 months	32 052	20 866
Over 12 months	4 677	3 055
Total	**36 729**	**23 921**

Trade receivables bear no interest and are usually payable within 30 days.

The Group operates a policy of selling its products and services only to customers whose credibility has been verified. The management believes that thanks to this policy there is no additional credit risk beyond the level defined by the impairment losses recognised with respect to uncollectible trade receivables of the Group. As at the balance sheet date, receivables from PKP PLK S.A. account for 27% of the total receivables of Trakcja Group.

Due to the short-term nature of trade receivables, their carrying amount approximates their fair value.

Change in expected credit loss on trade and other receivables in 2019 and 2018:

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
As at start of period	**72 524**	**69 617**
Adjustments of IFRS 9	**-**	**3 221**
Increases	**12 847**	**5 292**
Establishment	12 847	5 292
Decreases	**(8 754)**	**(5 655)**
Use	(269)	(40)
Dissolution	(8 485)	(5 615)
Variances due to currency translation	**(22)**	**49**
As at end of period	**76 595**	**72 524**

Recognition and reversal of impairment losses or expected credit loss on trade and other receivables are presented under cost of sales.

During 2019, the following amounts of expected credit loss were transferred between the impairment recognition stages:

	Stage 2	Stage 3
As at 01.01.2019	**9 372**	**38 995**
Transfer	-	-
Create/release	171	2 162
As at 31.12.2019	**9 543**	**41 157**

Trade receivables and retentions are assessed for impairment using the simplified model defined in paragraph 5.5.15 of IFRS 15. Therefore, an allowance for lifetime credit losses is calculated starting from their origination. As a consequence, it is presented under Stage 2 in the table above.

If a specific evidence of impairment of individual receivables is identified, they are transferred to individual assessment and presented in Stage 3.

(figures in PLN '000, unless stated otherwise)

Trade receivables and retentions by maturity:

	31.12.2019 Audited	31.12.2018 Audited
Up to 1 month	182 244	140 793
From 1 month to 3 months	22 875	47 058
From 3 months to 6 months	8 139	6 055
From 6 months to 1 year	11 155	2 821
More than 1 year	10 233	10 908
Overdue receivables	128 566	55 923
Total, net trade receivables	**363 212**	**263 558**

Structure of overdue receivables and retentions:

	31.12.2019 Audited	31.12.2018 Audited
Up to 1 month	22 585	12 098
From 1 month to 3 months	5 290	10 340
From 3 months to 6 months	59 192	3 090
From 6 months to 1 year	7 506	8 353
More than 1 year	84 693	69 404
Total, gross overdue trade receivables	**179 266**	**103 285**
Receivables revaluation write-offs oraz expected credit loss	(50 700)	(47 362)
Total, net overdue trade receivables	**128 566**	**55 923**

Structure of overdue and non-overdue receivables and retentions by impairment recognition method:

	31.12.2019 Audited		31.12.2018 Audited	
	Gross value	Expected credit losses	Gross value	Expected credit losses
Receivables covered by group analysis				
Unexpired	108 720	849	167 459	1 438
Until 1 month	17 677	90	4 362	56
Over 1 month to 3 months	949	21	4 289	209
Over 3 month to 6 months	1 495	120	2 355	493
Over 6 month to 1 year	4 731	690	4 916	2 028
Over 1 year	15 798	10 593	9 879	5 149
Total	**149 370**	**12 363**	**193 260**	**9 373**
Receivables covered by individual analysis (infrastructure companies)	220 492	-	79 671	-
Total	**220 492**	**-**	**79 671**	**-**
Covered by individual analysis in connection with the existence of premises for impairment				
Unexpired	195	195	-	-
Until 1 month	12	12	-	-
Over 1 month to 3 months	2	2	-	-
Over 3 month to 6 months	1	1	5	5
Over 6 month to 1 year	1 933	642	28	28
Over 1 year	42 612	38 190	38 961	38 961
Total	**44 755**	**39 042**	**38 994**	**38 994**
Total	**414 617**	**51 405**	**311 925**	**48 367**

(figures in PLN '000, unless stated otherwise)

Currency structure of gross trade and other receivables:

	31.12.2019 Audited	31.12.2018 Audited
In PLN	394 612	345 902
In foreign currencies - after conversion into PLN, including:	81 732	55 512
in EUR	69 754	43 095
in SEK	5 694	6 508
in USD	-	3 231
in UAH	6 284	2 678
Total	**476 344**	**401 414**

Receivables claimed in court:

	31.12.2019 Audited	31.12.2018 Audited
Receivables claimed in court	4 865	3 884
Receivables revaluation write-offs oraz expected credit loss	(4 859)	(3 104)
Total	**6**	**780**

31. Cash and cash equivalents

Cash at bank bears interest at variable interest rates which depend on the daily interest rate of bank deposits.

Short-term deposits have terms which differ from one day to one month depending on the Group's actual requirement for cash and they bear interest accrued according to the negotiated interest rates.

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

	31.12.2019 Audited	31.12.2018 Audited
Cash in hand	127	130
Cash at bank	76 340	81 225
Other cash - deposits	31 006	35 332
Total cash and cash equivalents	**107 473**	**116 687**
Cash and cash equivalents excluded from cash flow statement	(12)	(12)
Cash and cash equivalents presented in cash flow statement	**107 461**	**116 675**

Cash excluded from the statement of cash flows as at 31 December 2019 comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.

(figures in PLN '000, unless stated otherwise)

Currency structure of cash and cash equivalents:

	31.12.2019 Audited	31.12.2018 Audited
In PLN	67 577	84 352
In foreign currencies - after conversion into PLN, including:	39 896	32 335
in EUR	23 986	27 109
in SEK	15 812	3 016
in DKK	1	1
in UAH	97	2 135
in BGN	-	74
Total	**107 473**	**116 687**

Cash at banks – ratings:

	31.12.2019 Audited	31.12.2018 Audited
Bank with AA- rating	-	30 963
Bank with A+ rating	27 710	-
Bank with A rating	104	2 583
Bank with A- rating	17 731	652
Bank with BBB+ rating	30 035	49 231
Bank with BBB rating	5 460	19 119
Bank with BBB- rating	24 573	74
Bank with BB rating	674	2 412
Bank with BB- rating	-	9 197
Bank with B- rating	-	809
Bank without rating	78	1 360
Total	**106 365**	**116 400**
Cash in hand	127	130
Balance (note 59)	981	157
Cash at the end of the period	**107 473**	**116 687**

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

32. Explanatory notes to the consolidated statement of cash flows

A difference between an inflow from the issue of shares in the cash flow statement and the total of an increase in the share capital and the surplus of the issue value over the nominal value of shares in the statement of changes in equity results from the non-cash payment for shares by COMSA – the conversion of the loan granted by COMSA in the amount of PLN 20 million, including interest on the loan concerned in the amount of PLN 286 thousand and the conversion of some of the liabilities of Trakcja towards COMSA for invoices for support services in the amount of PLN 527 thousand. In addition, the inflows from the share issue (agio) were decreased by the costs of issue in the amount of PLN 969 thousand.

(figures in PLN '000, unless stated otherwise)

33. Settlements under contracts with customers

	31.12.2019 Audited	31.12.2018 Audited
Contracts with customers assets	**211 032**	**206 887**
Surplus of revenues resulting from degree of advancement over invoiced revenues	197 200	174 351
Advances paid towards contracts being performed	13 832	32 536
Contracts with customers liabilities	**154 250**	**141 258**
Surplus of invoiced revenues over revenues resulting from degree of advancement	41 287	21 570
Advances received towards contracts being performed	112 963	117 989
Advances received towards apartments	-	1 699

**The Group applied retrospective method with combined effect of the first application of IFRS 15 in retained earnings. In accordance with the chosen method, comparative data are not transformed. Information on the method of applying IFRS 15 is presented in Note 10.*

In the statement of financial position, the Group recognises a contract asset, i.e. the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time. This item of the statement of financial position includes, in particular, assets relating to completed and delivered works under long-term construction contracts that have not yet been invoiced and the recognition of revenue in connection with the transfer of control over products or goods that will be invoiced in the future.

In the statement of financial position, the Group recognises a contract liability, i.e. the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group recognises a contract liability mainly in relation to contracts for which the payment is made in advance and in relation to the consideration for construction works received in advance for services not yet provided by the Group.

No adjustments to revenue were made in any of the periods presented that would affect an asset or liability for contracts with customers in connection with the settlement of changes in contracts or changes in the estimated transaction price. In addition, no revenue was recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.

	31.12.2018 Audited	Change in the valuation of contracts / Implementation of new performance obligations without issuing an invoice	Revenues recognized in the period included in balance of liabilities as at 31/12/2018	Invoicing	Exchange differences	31.12.2019 Audited
Contracts with customers assets	206 887	171 750	-	(167 225)	(380)	211 032
Contracts with customers liabilities	141 258	79 897	(75 372)	8 583	(116)	154 250

(figures in PLN '000, unless stated otherwise)

The advances towards contracts being performed are disclosed as the short-term liabilities and will be settled during the performance of contracts in the course of the Company's normal operating cycle.

The table below shows the change in the balance of advance payments received:

	31.12.2019 Audited	31.12.2018 Audited
Balance at the beginning of the period	**117 989**	**146 588**
Increases (new advances)	51 628	48 336
Decreases (settlement of advances - revenues of period)	(56 601)	(77 330)
Exchange differences	(53)	395
Balance at the end of the period	**112 963**	**117 989**

Transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period (excluding the portion of revenue attributable to consortium members)

	1 year	1-3 years	Over 3 years	Total
The transaction price attributed to the obligations to perform service that will be met within:	1 410 394	1 586 495	-	2 996 889

Contract costs recognised as an asset

No items meeting the definition of contract costs recognised as an asset were identified. Therefore, no specific disclosures are required.

34. Assets held for sale

On 30 November 2018, the Extraordinary General Meeting of Trakcja PRKiI S.A. adopted a resolution to dispose of a real estate and perpetual usufruct of a real estate at ul. Oliwska 11 in Warsaw for a net price not lower than PLN 14 million. For or details, see CR 23/2018 and CR 20/2018. The planned transaction meets the conditions for classification of fixed assets as held for sale specified in IFRS 5. Therefore, the Group reclassified assets in the amount of PLN 5,037 thousand (segment: Civil engineering – Poland) to non-current assets held for sale. At present, the Parent Company expects to be able to close the sales transaction in 2020.

35. Capital risk management

The goal of the Group in managing the capital risk is maintaining the Group ability to continue the business and maintain optimum capital structure to provide return on investment to the shareholders. To maintain or adjust its capital structure, the Group may issue new shares, adjust the amount of dividends paid to shareholders, increase debt, or sell assets to reduce debt. The Group monitors its capital structure using the financing structure ratios. The ratios analysed by the Group, presented in the below table, allow for the acceptable credit rating to be maintained and confirm that the Group's capital structure supports its operating activities.

(figures in PLN '000, unless stated otherwise)

	31.12.2019 Audited	31.12.2018 Audited
Equity to assets ratio	0,28	0,42
Equity to non-current assets ratio	0,70	0,90
Debt ratio	0,72	0,58
Debt to equity ratio	2,53	1,39

The above ratios have been calculated according to the following formulas:

Equity to assets ratio = Equity attributable to shareholders of Parent entity / total assets

Equity to non-current assets ratio = Equity attributable to shareholders of Parent entity / non-current assets

Debt ratio = (total assets - equity attributable to shareholders of Parent entity) / total assets

Debt to equity ratio = (total assets - equity attributable to shareholders of Parent entity) / equity attributable to shareholders of Parent entity

36. Equity

Share capital

On November 29, 2019, by the decision of the District Court of the City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register under KRS, an increase in the Company's share capital was entered into the commercial register. The share capital was increased by resolution no. 5 of the Extraordinary General Meeting of Shareholders adopted on September 27, 2019 on an increase in the share capital from PLN 41,119,638.40 to PLN 69,160,780.80, i.e. by PLN 28,041,142.40 by way of issuing 10,279,909 series B bearer shares acquired at the issue price of PLN 1.70 per share and 24,771,519 series C registered shares acquired at the issue price of PLN 1.70 per share.

The issue of shares of series B and C allowed the Company to acquire the capital which was used for ongoing financial needs of the Company and enabled the current debt to be refinanced. Moreover, the issue of shares was necessary to acquire and implement projects performed by the Company in its relevant operational sectors. In the Management Board's opinion, the capital acquired supported the further operations of the Company. An increase in the Company's share capital through the issue of new shares was one of the conditions for acquiring new debt by the Company from financial institutions under the debt refinancing process which the Company undergoes currently. Simultaneously, the increase in the share capital depended also on the success in acquiring funds. The aforementioned measures aimed at restructuring the financial condition of the Company and at maintaining its market position. The Company's intention was to acquire at least PLN 50,000,000.

As at December 31, 2019 the share capital was PLN 69,160,780.80 and was divided into 51,399,548 series A ordinary bearer shares and 10,279,909 series B ordinary bearer shares and also 24,771,519 series C registered shares with a par value of PLN 0.80 per share. Each share constitutes one vote at the General Meeting of Shareholders. All shares are fully paid-up.

(figures in PLN '000, unless stated otherwise)

	31.12.2019 Audited	31.12.2018 Audited
	par value of PLN 0.80 per share	par value of PLN 0.80 per share
series A ordinary shares	51 399 548	51 399 548
series B ordinary shares	10 279 909	-
series C ordinary shares	24 771 519	-
Total	**86 450 976**	**51 399 548**

On February 6, 2020, by the decision of the District Court of the City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register under KRS, a conditional increase in the Company's share capital was entered into the commercial register. In relation to the foregoing, the Company's share capital was conditionally increased from PLN 69,160,780.80 by an amount no higher than PLN 13,023,288 by way of issuing no more than 16,279,110 series D ordinary bearer shares with a nominal value of PLN 0,80 per share. Series D shares may be held by holders of convertible bonds series F and G, which the Company intends to issue in the nearest future after all the formalities are met. Shares of series D, when bonds series F or G are converted into the Company's shares, shall be acquired at PLN 1.70 per share.

To the best knowledge of the Issuer's Management Board and in accordance with the 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, shareholders that hold – directly or through subsidiaries – at least 5% of the total number of votes at the General Shareholders' Meeting as at the approval hereof were as follows:

Shareholders	Number of shares	% in share capital	Number of votes	% in votes at GSM
COMSA S.A.	28 399 145	32,85%	28 399 145	32,85%
Agencja Rozwoju Przemysłu	16 117 647	18,64%	16 117 647	18,64%
OFE PZU "Złota Jesień"*	8 332 694	9,64%	8 332 694	9,64%
Other	33 601 490	38,87%	33 601 490	38,87%
Total	**86 450 976**	**100,00%**	**86 450 976**	**100,00%**

*represented by the Powszechne Towarzystwo Emerytalne PZU S.A.

Since the date of submission of the last interim report, i.e. 28 November 2019, to the date of publication of this report, the Parent Company received the following notifications under Article 69 of the Act on Public Offering:

On 6 November 2019, the Parent Company received a notification, submitted pursuant to Article 69(1)(2) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005, from Powszechne Towarzystwo Emerytalne PZU S.A. acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień" ("OFE PZU"), on a decrease in the shareholding below 10% of the total vote at the Parent Company, as announced by the Parent Company in current report No 67/2019. OFE PZU acquired 2,600,000 rights to series B shares which were introduced to trading on the stock exchange on 6 November 2019. On 13 November 2019, the Parent Company received a correction to the aforesaid notification, disclosing an excess of the threshold of 15% of the total vote in the Parent Company, as announced in current report No 70/2019.

On 7 November 2019, the Parent Company received a notification, submitted pursuant to Article 69(1)(2) in connection with Article 69b(1)(2) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005, from Agencja Rozwoju Przemysłu S.A. ("ARP"). ARP notified that it acquired 3,589,080 rights to series B shares that were introduced to trading on the exchange market on 6 November 2019, which had an economic effect similar to exceeding the threshold of 5% of the total vote in the Parent Company, as announced by the Parent Company in current report No 68/2019.

On 4 December 2019, the Parent Company received a notification, submitted pursuant to Article 69(1)(2) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005, from Powszechne Towarzystwo Emerytalne PZU S.A. acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień" ("OFE PZU"), in connection with the registration of the increase of the Parent Company's share capital, on a decrease in OFE PZU's shareholding below 10% of the total vote at the Parent Company, as announced by the Parent Company in current report No 74/2019.

On 4 December 2019, the Parent Company received a notification, submitted pursuant to Article 69(1)(1) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005, from Agencja Rozwoju Przemysłu S.A. ("ARP"), in connection with the registration of the increase of the Parent Company's share capital, on an increase in ARP's shareholding above the threshold of 15% of the total vote at the Parent Company, as announced by the Parent Company in current report No 76/2019.

On 4 December 2019, the Parent Company received a notification, submitted pursuant to Article 69(1)(1a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005, from COMSA S.A.U. ("COMSA"), in connection with the registration of the increase of the Parent Company's share capital, on an increase in COMSA's shareholding above the threshold of 32% of the total vote at the Parent Company, as announced by the Parent Company in current report No 78/2019.

Share premium account

As at December 31, 2019 the total surplus of the issue value over the nominal value of shares was PLN 340,561 thousand, and due to the issue of shares increased by PLN 30,577 in comparison to the value as at December 31, 2018 (PLN 309,984 thousand).

Other capital reserves

Other capital reserves include:

- Previous years' profits – capital arising from profits generated in the preceding financial years. The Parent Company is obliged to create a supplementary capital from at least 8% of the profit generated for a given financial year until it amounts to at least one third of share capital. Such capital reserves are non-distributable.

- Hedging instruments – an effective part of changes in fair value of derivative instruments classified as cash flow hedges are recognised in other comprehensive income and accumulated in capital reserves for cash flow hedges. Such capital reserves are non-distributable.

- Actuarial gains (losses) – the Group recognises actuarial gains and losses on provisions for employee benefits in other comprehensive income and accumulates them in capital reserves. Such capital reserves are nondistributable.

Revaluation reserve

Revaluation reserve includes mainly remeasurement effects caused by a change in the purpose of non-current assets.

Foreign exchange differences from conversion of foreign currencies

As a result of the 2011 acquisition of companies whose functional currency until December 31, 2014 was the Lithuanian litas (LTL), and from January 1, 2015 is the euro, the Parent Company translates the financial statements of these companies into the presentation currency which is PLN. Any foreign currency differences arising from such a translation are recognised directly in equity as a separate item. The foreign exchange differences arising from the translation at the end of 2019 were PLN 12,681 thousand.

Undistributed profit/loss

The Group's undistributed profit or loss is the current profit or loss for a given financial year. Dividends may be distributed based on the financial profit specified in the separate annual financial statements of the Parent Company drawn up for statutory objectives.

(figures in PLN '000, unless stated otherwise)

GRUPA TRAKCJA

Other comprehensive income by component of equity

	Equity attributable to shareholders of parent entity								
	Share capital	**Share premium**	**Revaluation reserve**	**Other capital reserves**	**Foreign exchange differences on translation of foreign operations**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
As at 31.12.2019									
Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:	**-**	**-**	**1 273**	**92**	**-**	**-**	**1 365**	**2**	**1 367**
Gains on revaluation charged to revaluation reserve	-	-	1 273	-	-	-	1 273	-	1 273
Actuarial gains/(losses)	-	-	-	92	-	-	92	2	94
Other comprehensive income, which will be reclassified to profit or loss:	**-**	**-**	**-**	**(1 476)**	**(2 738)**	**-**	**(4 214)**	**867**	**(3 347)**
Foreign exchange differences on translation of foreign operations	-	-	-	-	(2 738) `		(2 738)	896	(1 842)
Cash flow hedging instruments	-	-	-	(1 476)	-	-	(1 476)	(29)	(1 505)
Other comprehensive net income	**-**	**-**	**1 273**	**(1 384)**	**(2 738)**	**-**	**(2 849)**	**869**	**(1 980)**

(figures in PLN '000, unless stated otherwise)

	Equity attributable to shareholders of parent entity								
	Share capital	Share premium	Revaluation reserve	Other capital reserves	Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interest	Total equity
As at 31.12.2018									
Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:	**-**	**-**	**-**	**(269)**	**-**	**-**	**(269)**	**(3)**	**(272)**
Actuarial gains/(losses)	-	-	-	(269)	-	-	(269)	(3)	(272)
Other comprehensive income, which will be reclassified to profit or loss:	**-**	**-**	**-**	**181**	**8 747**	**-**	**8 928**	**(50)**	**8 878**
Foreign exchange differences on translation of foreign operations	-	-	-	-	8 747	-	8 747	(90)	8 657
Cash flow hedging instruments	-	-	-	181	-	-	181	40	221
Other comprehensive net income	**-**	**-**	**-**	**(88)**	**8 747**	**-**	**8 659**	**(53)**	**8 606**

Non-controlling interests

The change in non-controlling interests was presented in the statement of changes in consolidated equity.

Having analysed the amounts of equity attributable to the non-controlling interests, the Management Board of the Parent Company decided that they are insignificant, and therefore these financial statements contain no information about the non-controlling interests in accordance with IFRS 12.

(figures in PLN '000, unless stated otherwise)

37. Provisions

	Provisions for recultivation	Provision for costs	Provisions for litigious liabilities	Provisions for correction works	Provision for noncompetition payments and other compensation	Provisions for bonuses	Provisions for audit costs	Provision for expected losses on contracts	Other provisions	Total
As at 1.01.2019 Modified	**2 758**	**-**	**703**	**13 286**	**-**	**4 864**	**304**	**48 748**	**1 442**	**72 105**
Recognised in income statement:										
- provision creation	-	-	21	4 228	-	9 176	286	77 686	2 271	93 668
- release of unused provisions	-	-	-	(70)	-	(7 309)	-	(1)	(416)	(7 796)
- use of provisions	-	-	(27)	(1 973)	-	(1 496)	(335)	(44 748)	(464)	(49 043)
- variances due to currency translation	(27)	-	(1)	(28)	-	(12)	-	-	-	(68)
Total	**(27)**	**-**	**(7)**	**2 157**	**-**	**359**	**(49)**	**32 937**	**1 391**	**36 761**
As at 31.12.2019 Audited	**2 731**	**-**	**696**	**15 443**	**-**	**5 223**	**255**	**81 685**	**2 833**	**108 866**

The provision for bonuses includes mainly provisions for bonuses paid to blue and white-collar workers.

(figures in PLN '000, unless stated otherwise)

	Provisions for recultivation	Provision for costs	Provisions for litigious liabilities	Provisions for correction works	Provision for noncompetition payments and other compensation	Provisions for bonuses	Provisions for bonuses	Provisions for audit costs	Provision for anticipated losses on contracts	Other provisions
As at 1.01.2018 Modified	**2 675**	**-**	**797**	**12 871**	**375**	**7 576**	**277**	**-**	**1 525**	**26 096**
Influence over IFRS 15	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12 465**	**-**	**12 465**
Recognised in income statement:										
- provision creation	-	1 400	-	4 014	-	6 526	464	46 062	1 964	60 430
- movements between categories	-	-	-	-	-	-	-		-	-
- release of unused provisions	-	-	-	(1 356)	(225)	(1 020)	-		(398)	(2 999)
- use of provisions	-	(1 400)	(99)	(2 317)	(150)	(8 281)	(409)	(9 779)	(1 649)	(24 084)
- full consolidation method for a new Subsidiary	-		-	-	-	-	-		-	-
- liabilities of group to be classified as held for sale	-	-	-	-	-	-	(29)	-	-	(29)
- variances due to currency translation	83	-	5	74	-	63	1		-	226
Total	**83**	**-**	**(94)**	**415**	**(375)**	**(2 712)**	**27**	**48 748**	**(83)**	**46 009**
As at 31.12.2018 Audited	**2 758**	**-**	**703**	**13 286**	**-**	**4 864**	**304**	**48 748**	**1 442**	**72 105**

Provisions for additional works are estimated based on the knowledge of the 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.

(figures in PLN '000, unless stated otherwise)

38. Employee benefit liabilities

Liabilities on account of provisions for old-age and disability retirement severance payments and length-of-service awards:

Provision for retirement and disability benefits	Year ended 31.12.2019 Audited	Year ended 31.12.2018 Audited
Beginning of period	**4 309**	**4 200**
Total costs recognised in profit and loss account:	**635**	**400**
- Interest costs	139	109
- Current service costs	530	815
- Past service costs	(34)	(524)
Actuarial losses (profit) recognised in other comprehensive income	94	(73)
Benefits paid	(502)	(227)
Exchange rate differences	(26)	9
End of period	**4 510**	**4 309**

Provision for jubilee awards	Year ended 31.12.2019 Audited	Year ended 31.12.2018 Audited
Beginning of period	**2 321**	**2 682**
Total costs recognised in profit and loss account:	**696**	**507**
- Interest costs	51	67
- Current service costs	811	1 178
- Past service costs	(166)	(738)
Benefits paid	(1 803)	(868)
End of period	**1 214**	**2 321**

Liabilities on account of provisions for unused holiday entitlements and other employee benefits:

Provision for unused leaves	Year ended 31.12.2019 Audited	Year ended 31.12.2018 Audited
As at start of period Audited	**14 752**	**11 007**
Recognised in profit and loss account:	**(2 765)**	**3 622**
- provision creation	8 883	9 456
- release of unused provision	(1 811)	(2 158)
- use of provision	(9 837)	(3 676)
Variances due to currency translation	(43)	123
As at end of period Audited	**11 944**	**14 752**

(figures in PLN '000, unless stated otherwise)

Employee benefit liabilities by maturity:

	Provision for pension benefits	Provision for jubilee awards
During 1 year	1 040	590
From 1 to 4 years	701	564
Over 4 years	2 769	60
Total	**4 510**	**1 214**

The weighted average term of post-employment benefit liabilities is 3 years.

Principles for recognising provisions for employee benefits:

The Group pays retirement benefits to retired employees pursuant to the applicable provisions of the Remuneration Rules. Therefore, based on valuation prepared based on actuarial methods, the Group recognises a provision for the present value of old-age and disability retirement severance payments and length-of-service awards. Following the adoption of new remuneration rules by the Parent Company on 3 June 2017, the provision for old-age and disability retirement benefits and length-of-service awards decreased.

To estimate the amount of provisions for employee benefits at the end of 2019, the Group applied a discount rate ranging from 1.2% to 3.0% (31 December 2018: 2.5% to 3.6%). The average expected salary growth in the Group was adopted at the level ranging from 1.8% to 4.9% (31 December 2018: 1.8% to 3.3%).

The sensitivity analysis of employee benefit liabilities is presented in the table below:

Factor applied	Reasonably possible change of the factor	Liability due to employee benefits	
		increase	decrease
Discount rate	+/- 1 p. p.	(261)	304
Salary increase rate	+/- 1 p. p.	346	(294)

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

39. Interest-bearing loans and borrowings

Long-term interest-bearing loans and borrowings:

	31.12.2019 Audited	31.12.2018 Audited
Bank loans	114 403	1 558
- investment loans	3 793	698
- working capital loans	110 610	860
Loans from other entities	180	21 318
- investment loans	-	21 318
- loans from third parties	180	-
Loans from related entities	27 600	-
Financial lease liabilities	65 674	43 495
Total	**207 857**	**66 371**

(figures in PLN '000, unless stated otherwise)

Short-term interest-bearing loans and borrowings:

	31.12.2019 Audited	31.12.2018 Audited
Bank loans	124 866	110 737
- investment loans	5 757	14 610
- working capital loans	99 662	79 016
- overdraft facility	19 447	17 111
Loans from other entities	2 357	4 632
- investment loans	2 310	4 632
- loans from third parties	47	-
Loans from related entities	7 724	-
Financial lease liabilities	18 843	17 190
Total	**153 790**	**132 559**
Total short and long term loan and credits	**361 647**	**198 930**

Currency structure of the Group's loans and borrowings:

	31.12.2019 Audited	31.12.2018 Audited
In PLN	334 227	190 852
In foreign currencies - after conversion into PLN, including:	27 420	8 078
in EUR	27 420	7 906
in UAH	-	172
Total	**361 647**	**198 930**

The table below presents long-term and short-term liabilities on account of loans and borrowings as at 31 December 2019:

Name of Company	Lender Creditor	Type of loan, credit	Amount by currency contracts (in thousands)	Contract Currency	Maturity date	Interests	Amount left to be paid
Trakcja PRKiI S.A.	mBank S.A., Credit Agricole Bank Polska S.A.	working capital credit	21 500	PLN	31.12.2022	WIBOR 1M + margin	21 550
Trakcja PRKiI S.A.	mBank S.A., Credit Agricole Bank Polska S.A., Bank Gospodarstwa Krajowego	working capital credit	92 600	PLN	31.12.2022	WIBOR 1M + margin	92 814
Trakcja PRKiI S.A.	mBank S.A.	overdraft facility	20 000	PLN	31.12.2022	WIBOR O/N + margin	-
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	50 000	PLN	31.12.2022	WIBOR 1M + margin	40 700
Trakcja PRKiI S.A.	mBank S.A.	investment credit	21 500	PLN	31.12.2022	WIBOR 1M + margin	8 852
Trakcja PRKiI S.A.	COMSA S.A.	loan from related undertaking	4 712	EUR	01.01.2023	WIBOR 1M + margin	7 656
Trakcja PRKiI S.A.	Pekao S.A.	overdraft facility	20 000	PLN	31.12.2022	WIBOR 1M + margin	19 447
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	15 000	PLN	31.12.2022	WIBOR 1M + margin	14 999
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	15 000	PLN	31.12.2022	WIBOR 1M + margin	14 998
Trakcja PRKiI S.A.	De Lage Landen Leasing Polska S.A.	investment loan	1 147	PLN	25.04.2020	variable interest rate	394
Trakcja PRKiI S.A.	Agencja Rozwoju Przemysłu S.A.	loan from related undertaking	27 600	PLN	31.12.2023	WIBOR 1M + margin	27 668
Dalba Sp. z o.o.	mBank S.A., Credit Agricole Bank Polska S.A.	working capital credit	1 000	PLN	31.12.2022	WIBOR 1M + margin	1 000
PDM S.A.	mBank S.A., Credit Agricole Bank Polska S.A.	working capital credit	2 500	PLN	31.12.2022	WIBOR 1M + margin	2 500
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	investment credit	2 500	PLN	30.12.2020	WIBOR 1M + margin	698
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	Idea Getin Leasing	loan from other entities	244	PLN	15.06.2024	WIBOR 1M + margin	227
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	overdraft facility	3 000	PLN	31.12.2022	WIBOR 1M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital credit	400	EUR	14.01.2020	EURIBOR 3M + margin	852
AB Kauno Tiltai	Nordea Dnb	working capital credit	4 000	EUR	31.05.2023	EURIBOR 3M + margin	14 859
AB Kauno Tiltai	Luminor Bank AB	overdraft facility	12 000	EUR	30.06.2020	EURIBOR 3M + margin	-
PRK 7 Nieruchomości Sp. z o.o.	mBank S.A., Credit Agricole Bank Polska S.A.	working capital credit	4 000	PLN	31.12.2022	WIBOR 1M + margin	4 000
Bahn Technik Wrocław Sp. z o.o.	Plasser & Theurer, Export von Bahnbaumaschinen, Gessellschaft m.b.H.	investment loan	1 800	EUR	24.03.2020	fixed interest rate	1 916
Bahn Technik Wrocław Sp. z o.o.	mBank S.A., Credit Agricole Bank Polska S.A.	working capital credit	2 000	PLN	31.12.2022	WIBOR 1M + margin	2 000
						Total	**277 130**

The interest rate of loans and borrowings received depends on WIBOR / EURIBOR and bank margin. Bank margins depend on the lending period and the customer's creditworthiness.

The fair value of loans and borrowings does not differ materially from their carrying amounts.

(figures in PLN '000, unless stated otherwise)

40. Other financial liabilities

Under "Other financial liabilities", the Group presents mainly factoring liabilities and other financial liabilities. As at 31 December 2019 and 31 December 2018, the Group carried no factoring liabilities.

41. Derivative financial instruments

Derivaties	31.12.2019 Audited	31.12.2018 Audited
Fair value hedging (liabilities)	8	8
including:		
- recognized among long-term liabilities	8	8

Cash flow hedging instruments and application of hedge accounting

Polish companies of Trakcja Group do not apply hedge accounting, but as at 31 December 2019 the Lithuanian part of Trakcja Group, namely Companies from the AB Kauno Tiltai Group, follow the principles thereof.

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

Fair value of the IRS contracts is calculated as the present value of future cash flows estimated using the yield curves. In 2019 the measurement method remained unchanged.

In 2019, the Group assessed the hedge effectiveness of the IRS transactions. In the reporting period, the interest rate hedge was highly effective, and therefore no ineffective part thereof was identified or recognised in profit or loss.

As at 31 December 2019, the impact of hedging instruments on other comprehensive income amounted to PLN -1,505 thousand and resulted from the sale of UAB Pletros investicijos.

Other derivatives

In the reporting period, the Group did not enter into either any new interest rate swap (IRS) contracts or any derivative contracts for speculation purposes. Except for the aforementioned IRS instruments, the Group did not apply any hedge accounting in the periods subject hereto, and therefore the Group is not a party to any other derivative contracts in the scope covered hereby and no financial derivatives measured at fair value were recognised in profit or loss.

The Group categorises financial derivatives within Level 2 of the fair value hierarchy. In 2019 there were no transfers made between Levels 1, 2 and 3.

	31.12.2019 Audited	Level 1	Level 2	Level 3
Derivative financial instruments	8	-	8	-

	31.12.2018 Audited	Level 1	Level 2	Level 3
Derivative financial instruments	8	-	8	-

Level 1 – prices quoted on an active market for identical assets or liabilities;

(figures in PLN '000, unless stated otherwise)

Level 2 – prices from active markets other than quoted market prices, set directly (by comparison with actual transactions) or indirectly (by application of valuation techniques based on actual transaction);

Level 3 – prices other than prices in active markets.

42. Trade liabilities

	31.12.2019 Audited	31.12.2018 Audited
Trade liabilities, before discounting	326 548	298 935
Total, net trade liabilities after discounting	**326 548**	**298 935**
including:		
- liabilities from related entities	372	2 117
Amounts held	42 362	36 140
Budgetary liabilities	30 078	63 356
Payroll liabilities	6 460	5 648
Other liabilities towards third parties	3 225	3 259
Dividends and other distributions	93	3
Total trade and other liabilities	**408 766**	**407 341**

Liabilities to related parties are disclosed in Note 55.

Trade liabilities and retentions:

	31.12.2019 Audited	31.12.2018 Audited
Trade liabilities before discounting	368 910	335 075
With maturity within 12 months	348 404	322 306
With maturity over 12 months	20 506	12 769
Total, Trade liabilities after discounting	**368 910**	**335 075**

Liabilities maturing in more than 12 months include retentions. The maturity structure of total retentions is presented in the table below:

	31.12.2019 Audited	31.12.2018 Audited
Up to 12 months	28 145	22 184
Over 12 months	14 217	13 956
Total	**42 362**	**36 140**

The Group decided not to recognise the discount of long-term liabilities due to their immateriality.

Due to the short-term nature of trade liabilities, their carrying amount approximates their fair value.

Currency structure of trade and other liabilities:

(figures in PLN '000, unless stated otherwise)

	31.12.2019 Audited	31.12.2018 Audited
In PLN	313 783	324 412
In foreign currencies - after conversion into PLN, including:	94 983	82 929
in EUR	91 917	82 437
in USD	47	-
in SEK	2 890	220
in BGN	1	24
in UAH	128	248
Total	**408 766**	**407 341**

Terms and conditions of payment of liabilities:

Trade liabilities do not bear interest and are, as a rule, paid in 30-60 days. Liabilities maturing in more than 12 months comprise retentions related to the performance of construction and assembly contracts in order to ensure proper and timely performance of the contract. Other liabilities do not bear interest, and their average payment period is one month. The amount resulting from the difference between VAT payable and VAT receivable is paid to the relevant tax authorities within deadlines set out in tax regulations. Interest payable is usually settled based on accepted interest notes.

43. Finance lease liabilities

The Group uses some of its manufacturing equipment under finance lease agreements. The Group may purchase the equipment leased for its nominal value at the end of the agreements. The Group's liabilities resulting from the finance lease agreements are secured with the rights of lessors to the assets leased.

Future minimum lease payments under these agreements and the present value of the minimum net lease payments are as follows:

	31.12.2019 Audited	31.12.2018 Audited
Nominal value of minimum leasing fees		
Within 1 year	22 078	20 052
Within 1 to 5 years	54 331	47 647
Over 5 years	35 261	2 582
Total financial lease liabilities - total minimum leasing fees	**111 670**	**70 281**
Financial costs on account of financial lease	**(27 153)**	**(9 596)**
Present value of minimum leasing fees		
Within 1 year	18 843	16 967
Within 1 to 5 years	48 624	42 163
Over 5 years	17 050	1 555
Total present value of minumum leasing fees	**84 517**	**60 685**

(figures in PLN ‘000, unless stated otherwise)

44. Accruals and deferred income

As at 31 December 2019 and 31 December 2018, the Group recognised only short-term deferred income.

45. Information on financial instruments

In the period covered by the annual consolidated financial statements and in the corresponding period, the Group held the following financial instruments:

- financial assets and liabilities measured at fair value through profit or loss – IRS contracts,
- financial assets measured at amortised cost – cash and short-term deposits, trade and other receivables other than receivables from the State budget, short-term borrowings granted to entities outside the Group, bank guarantee deposits to secure guarantees granted to the Group by banks,
- financial liabilities measured at amortised cost – bank loans, lease and factoring liabilities, trade and other liabilities other than liabilities to the State budget.

As at 31.12.2019	Valued at FV through financial result	Financial assets valued at amortised costs	Financial liabilities measured at amortised cost
Disclosed in balance sheet, indicating balance sheet item			
recognised as non-current assets			
Other financial assets	-	6 202	-
Total	**-**	**6 202**	**-**
recognised as current assets			
Trade and other receivables (excluding budgetary)	-	396 137	-
Other financial assets	-	12 699	-
Cash and cash equivalents	-	107 473	-
Total	**-**	**516 309**	**-**
recognised as long-term liabilities			
Interest-bearing bank loans and borrowings	-	-	207 857
Other financial liabilities	-	-	37
Derivatives	8	-	-
Total	**8**	**-**	**207 894**
recognised as short-term liabilities			
Interest-bearing bank loans and borrowings	-	-	153 790
Trade and other liabilities (excluding budgetary)	-	-	378 688
Other financial liabilities	-	-	123
Total	**-**	**-**	**532 601**
Total	**8**	**522 511**	**740 495**

(figures in PLN '000, unless stated otherwise)

46. Fair value of financial instruments

Comparison of fair value and carrying amount:

	As at 31.12 2019		As at 31.12 2018	
Classes of financial instruments	**Book value**	**Fair value**	**Book value**	**Fair value**
Bank guarantee deposits	14 173	14 173	15 994	15 994
Other bank deposits	4 728	4 728	2 290	2 290
Trade and other receivables (excluding budgetary receivables)	396 137	396 137	325 930	325 930
Cash and cash equivalents	107 473	107 473	116 687	116 687
Derivatives (liability)	8	8	8	8
Loans & credits taken and financial leasing liability	361 647	361 647	198 930	198 930
Pozostałe zobowiązania	160	160	-	-
Trade and other liabilities (excluding budgetary liablities)	378 688	378 688	343 985	343 985

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

Due to a short-term nature of trade and other receivables and trade and other liabilities, as well as cash and cash equivalents, the carrying amounts of these financial instruments are close to their fair value.

Any borrowings granted and any loans and borrowings incurred are based on the variable market rates linked to WIBOR, and therefore their fair values are close to their carrying amounts.

Fair value of the IRS contracts (classified as financial derivatives) is calculated as the present value of future cash flows estimated using the yield curves.

For a financial asset related to a concession arrangement which is recognised in the balance sheet at amortised cost using the effecting interest rate method, the effective interest rate of this asset is similar to the market rates as at the balance sheet date. Therefore, fair value of a financial asset related to a concession arrangement is close to its carrying amount.

The Group applies the following hierarchy when determining and disclosing fair value of the financial instruments measured at fair value, depending on the measurement method adopted:

Level 1 – quoted market prices for similar assets or liabilities in active markets;

Level 2 – prices in active markets other than the quoted market prices – set directly (by comparison with actual transactions) or indirectly (by application of measurement methods based on actual transactions);

Level 3 – prices other than prices in active markets.

Financial instruments measured at fair value	**Level 1**		**Level 2**		**Level 3**	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Derivatives (liability)	-	-	8	8	-	-

Both in the reporting and corresponding periods, there were no transfers between Level 1 and Level 2 of the fair value hierarchy, and no instruments were transferred from Level 2 to Level 3 in the fair value hierarchy.

47. Risk identification

Risk management is mainly focused on the unpredictability of markets and aims to reduce the impact of volatility on the Group's financial results.

Type of risk		Exposure	Risk measurement	Management/Hedging
MARKET RISK	**Exchange rate changes**	- economic currency exposure resulting from inflows decreased by expenses indexed to or denominated in a currency other than the functional currency; - currency exposure resulting from investment or probable liabilities and receivables in foreign currencies; - balance sheet exposure resulting from assets and liabilities denominated in foreign currency	Based on planned cash flows. Based on analysis of balance sheet items.	Market risk management policy and hedging strategies, which define principles of measurement of individual exposure, parameters and the time horizon of risk hedging and hedging instruments.
	Interest rate changes	Exposure resulting from assets held and liabilities for which interest income or expenses are based on floating interest rates.	Based on total gross debt to items for which interest expenses depend on floating interest rates.	
Liquidity		Risk of unforeseen shortage of cash or lack of access to financing sources, both in the horizon of short and long-term borrowing, leading to temporary or permanent loss of ability to pay financial liabilities or imposing the need to obtain funds on unfavourable terms.	Based on planned cash flows in short and long-term horizon.	Liquidity risk management policy which defines rules of reporting and consolidation of liquidity. The Group pursues a policy of its financing sources diversification and uses a range of tools for effective liquidity management.
Loss of cash and deposits		Risk of bankruptcy of domestic or foreign banks in which accounts are kept or in which cash is invested.	Regular review of credit rating of banks and setting limits on concentration of funds. Management based on principles of surplus cash management, which determine possibility of granting quotas for individual banks made on the basis of, among others, ratings and reporting data. Cooperation mainly with crediting banks.	Regular review of credit rating of banks and setting limits on concentration of funds. Management based on principles of surplus cash management, which determine possibility of granting quotas for individual banks made on the basis of, among others, ratings and reporting data. Cooperation mainly with crediting banks.
Credit		Risk of unsettled receivables for delivered products and services by customers related to the creditability of customers with whom trade transactions are concluded.	Analysis of creditability and solvency of customers.	Management based on procedures and policies adopted for management of trade credit and debt recovery including the determination of limits and establishment of collateral.

(figures in PLN '000, unless stated otherwise)

Currency risk

The Group's activities are not significantly exposed to the fluctuations in foreign exchange rates. Foreign exchange rate fluctuations do not have a significant impact on the Group's financial statements due to the fact that the items disclosed in assets and liabilities denominated in currencies other than the functional currency of each of the subsidiaries are not significant in the context of the Group's financial statements. In accordance with IFRS 7,the sensitivity analysis does not cover any translation risk.

An analysis of impact of the PLN/EUR exchange rate volatility on the profit or loss and on cash as at 31 December 2019 and 31 December 2018 is presented below:

Change of PLN/EUR exchange rate in reference to average exchange rate for 2019		PLN / EUR exchange rate	Gross impact on the period result	Deffered tax	Net impact on the period result / Impact on equity
+	0,20 PLN/EUR	4,5018	(594)	(193)	(401)
+	0,10 PLN/EUR	4,4018	(297)	(97)	(201)
-	0,10 PLN/EUR	4,2018	297	97	201
-	0,20 PLN/EUR	4,1018	594	193	401

Change of PLN/EUR exchange rate in reference to average exchange rate for 2018		PLN / EUR exchange rate	Gross impact on the period result	Deffered tax	Net impact on the period result / Impact on equity
+	0,20 PLN/EUR	4,4669	(138)	109	(248)
+	0,10 PLN/EUR	4,3669	(69)	55	(124)
-	0,10 PLN/EUR	4,1669	69	(55)	124
-	0,20 PLN/EUR	4,0669	138	(109)	248

Change of PLN/EUR exchange rate in reference to exchange rate as at 31.December 2019		PLN / EUR exchange rate	Impact on cash assets
+	0,20 PLN/EUR	4,4585	1 126
+	0,10 PLN/EUR	4,3585	563
-	0,10 PLN/EUR	4,1585	(563)
-	0,20 PLN/EUR	4,0585	(1 126)

Change of PLN/EUR exchange rate in reference to exchange rate as at 31.December 2018		PLN / EUR exchange rate	Impact on cash assets
+	0,20 PLN/EUR	4,5000	1 261
+	0,10 PLN/EUR	4,4000	630
-	0,10 PLN/EUR	4,2000	(630)
-	0,20 PLN/EUR	4,1000	(1 261)

Interest rate risk

As at 31 December 2019, a risk exists related to the fluctuations in interest rates which may affect the interest rates of loans, borrowings and finance leases contracted by the Trakcja Group. The Group did not take any specific measures aimed at hedging against changes in the interest rates. Loans and borrowings contracted by the Group are described in detail in Note 39.

Based on the expectation that any potential changes in interest rates would be insignificant, the Group decided not to present the sensitivity analysis of an effect of the interest rate fluctuations on the IRSs.

An analysis of impact of the interest rate volatility on the Group's profit or loss as at 31 December 2019 and 31 December 2018 is presented below: For the purpose of analysing the sensitivity to the interest rate fluctuations, such fluctuations were estimated as at 31 December 2019 and as at 31 December 2018 at the rationally expected level, i.e. +1/ -1 percentage point.

(figures in PLN '000, unless stated otherwise)

	Value at the balance-sheet date	Sensitivity to changes as at 31.12.2019	
		+ 100 pb (PLN, EUR)	- 100 pb (PLN, EUR)
Trade receivables (present value)	324 865		
Trade payables (present value)	326 548		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	121 646	1 216	(1 216)
Loans and credits, factoring liability, bonds (nominal value/interest)	361 647	(3 616)	3 616
Derivatives	8	-	-
Gross impact on period result and net assets		**(2 400)**	**2 400**
Deferred tax		(456)	456
Total		**(1 944)**	**1 944**

	Value at the balance-sheet date	Sensitivity to changes as at 31.12.2018	
		+ 100 pb (PLN, EUR)	- 100 pb (PLN, EUR)
Trade receivables (present value)	288 003		
Trade payables (present value)	298 935		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	132 681	1 327	(1 327)
Loans and credits, factoring liability, bonds (nominal value/interest)	198 930	(1 989)	1 989
Derivatives	8	-	-
Gross impact on period result and net assets		**(662)**	**662**
Deferred tax		(126)	126
Total		**(536)**	**536**

Liquidity risk

Similarly to the majority of entities operating in the construction industry, the Group's sales are also characterised by seasonality which consists in the generation of a significant part of the revenues from sales in the second half of a calendar year and in the generation of significantly lower revenues in the first quarter, which is of significant importance for the management of the Group's liquidity and working capital needs. The Group's liquidity is also affected by the fact that its key customers obtain financial funds for purchases of the Group's services through the subsidies granted by the Republic of Poland and the EU. Legal regulations governing such subsidies do not allow for the funds granted to be used for paying the VAT. It cannot be excluded that the VAT receivables may be paid late by customers, which would not release the Group from the obligation to pay the VAT within the time limits set in the VAT Act.

Irregular proceeds from customers may have an adverse impact on the liquidity of the Parent Company and Group. Any unexpected fluctuations in the liquidity and any unexpected increase in working capital needs may have a significant adverse impact on the Group's financial position.

In addition, a liquidity gap was identified. For details, see Note 62 to these financial statements.

In order to minimize liquidity risk, the Group uses external sources of financing in the form of loans (working capital facilities, overdraft facilities and investment loans). For details on liabilities on account of loans and borrowings as at 31 December 2019, see Note 39. In addition, the Group invests any surplus cash in interest-bearing current accounts, term deposits, money market deposits, selecting instruments with appropriate maturity or sufficient liquidity in order to ensure a sufficient level of security.

The analysis of the Group's financial liabilities in net amounts by maturity in relation to the period remaining to their contractual maturity as at the balance sheet date is provided in the table below.

(figures in PLN '000, unless stated otherwise)

As at 31.12.2019 **Audited**	**0-90 days**	**90-360 days**	**1-5 years**	**Over 5 years**
Interest-bearing loans and borrowings	99 391	35 342	142 183	-
Financial lease liabilities	5 673	13 170	48 690	16 984
Derivative financial instruments	-	-	8	-
Trade and other liabilities (except budget liabilities)	307 525	50 657	20 506	-

As at 31.12.2018 **Audited**	**0-90 days**	**90-360 days**	**1-5 years**	**Over 5 years**
Interest-bearing loans and borrowings	44 792	70 578	11 218	11 659
Financial lease liabilities	6 283	10 906	56 662	14 240
Derivative financial instruments	-	-	-	-
Trade and other liabilities (except budget liabilities)	309 153	18 804	12 769	-

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Transactions that expose the Group to credit risk include trade receivables. The Management Board applies a credit policy which requires continuous monitoring of the Group's credit risk exposure. The Group performs interim analyses of the recovery ratios on a quarterly basis and full-scale analyses of those ratios after the end of the year. The Parent Company's Management Board analyses the calculation of ratios and detailed information on disputed and unpaid amounts of individual receivables balances on a quarterly basis.

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.

The Group has adopted a policy of entering into transactions with counterparties with high creditworthiness and verified credit capacity. Credit capacity is assessed on a regular basis. If the future credit capacity of a counterparty is assessed negatively, the Group companies apply adequate collateral to minimize credit risk. Financial services monitor the balance of receivables on an ongoing basis, thereby reducing the risk of uncollectibility. The carrying amount of financial assets disclosed in the consolidated financial statements corresponds to the Trakcja Group's maximum exposure to credit risk (without collateral). As at the balance sheet date, receivables from PKP PLK S.A. account for 27% of the total receivables of Trakcja Group (26% as at 31 December 2018), therefore there is a significant concentration of credit risk.

For disclosures regarding overdue trade receivables and impairment losses on receivables and expected credit losses, see Note 30.

The Group cooperates with highly-rated financial institutions. The use of credit limits is controlled on a regular basis. Available cash is invested in several banks in order to avoid concentration of risk related to liquid funds.

The maximum exposure to credit risk is equal to the carrying amount of the following financial instruments:

(figures in PLN '000, unless stated otherwise)

Maximum exposure to credit risk	Book value 31.12.2019 Audited	Book value 31.12.2018 Audited
Trade and other receivables, excluding budget receivables	472 732	344 612
Bank guarantees deposits	14 173	15 994
Cash and cash equivalents	107 473	116 687
Total	**594 378**	**477 293**

Impact of the SARS CoV-2 (COVID-19) pandemic on the activities and financial condition of the Group

The rapid spread of the SARS CoV-2 virus in Poland and on other markets, on which the Company and its subsidiaries carry out its business activities may have an impact on the Company's financial performance in 2020. As at the date hereof, the Management Board expects that the actual pandemic state in Poland which results, in particular, in:

- Transport being limited and delivery of components and raw materials being irregular,
- Availability and efficiency of subcontractors being reduced,
- Administrative decisions on the construction contracts implemented being delayed,
- The progress in works experiencing a slowdown due to the introduction of emergency measures in accordance with the guidelines issued by the Ministry of Health and the Chief Sanitary Inspector, and due to the increased absence of employees,
- Costs of certain services, in particular, transport of materials and raw materials, being increased,

  The completion by the Group of contracts, under which the Group companies act as contractors or subcontractors, may be delayed and as a consequence translate into a risk that the contracting parties may file claims for contractual penalties to be paid by the Group companies for untimely completion of contracts. The aforementioned factor may also result in an extraordinary increase in prices for materials and services being experienced, which in turn shall result in the profitability of contracts being reduced. Furthermore, the COVID-19 pandemic may contribute to a decrease in the number of infrastructural investment projects being scheduled for the following years.

Despite the fact that as at the date hereof both the business entities and financial institutions continue their operations, the further spread of the SARS CoV-2 virus may result in the Company's business partners, courts and financial institutions being forced to adapt their operations to the circumstances pending, which may cause delays in obtaining financial funds necessary for the Company to:

- fulfil its financial obligations,
- acquire new contracts, if the Company has no required financial security such as guarantees or deposits,
- meet its obligations under the long-term financing documentation (of which the Company notified in Current Report no. 51/2019 of September 27, 2019) that forms part of the financial restructuring process of the Group.

Measures taken by the Company's Management Board

On April 6, 2020 the Management Board and trade unions concluded an agreement under which the working hours of employees were reduced by 10%, and as a result the salaries paid according to a monthly wage rate were decreased accordingly. The aforementioned reduction in the working hours applies mainly to white-collar employees and at the same time allows for the contract performance potential to be maintained. The agreement remains valid until June 30, 2020.

The aforementioned 10%-decrease applies also to remuneration of the management board members, supervisory board members, and also self-employed and service providers who collaborate with the Company.

(figures in PLN '000, unless stated otherwise)

In addition, it has been decided that payment of any bonuses, awards, allowances and severance pays is suspended and that overtime and use of company cars are to be reduced. The contribution to the company social benefits fund is also to be reduced by 25%.

The Company estimates that the aforementioned measures will allow it to achieve monthly savings of approximately PLN 1.8 million.

Due to the fact that as at the date hereof the precise and final impact of the SARS CoV-2 pandemic on the Group's situation has not yet been identified, the Company's Management Board monitors on an ongoing basis the developments and analyses the potential impact of the pandemic on the operations, performance and perspectives of both the Company and the Group, including a necessary change in the measurement of contracts and the Group's liquidity ratio.

Objectives and policies of financial risk management

The Group manages its financial risk through the identification, monitoring and reporting of risk factors, which is to reduce the adverse impact of the currency risk factors on the Group's cash flows and performance. The Group measures derivative instruments at fair value. For recording purposes, the Group uses bank valuations. In addition, the Lithuanian part of the Group, i.e. companies of the AB Kauno Tiltai Group, namely AB Kauno Tiltai and UAB Palangos aplinkkelis, apply hedge accounting: interest rate swap (IRS) transactions in order to hedge future cash flows from interest to be paid on the term loan.

48. Balance sheet items measured at fair value

The table below presents all the balance sheet items measured at fair value and a fair value hierarchy level assigned to them.

Balance sheet items measured at fair value	**Level 1**		**Level 2**		**Level 3**	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Derivatives (liability side)	-	-	8	8	-	-
Investment property	-	-	-	-	22 447	20 445
Office properties	-	-	-	-	17 875	15 785
Land properties	-	-	-	-	1 974	2 048
Deposits of natural aggregates	-	-	-	-	2 598	2 612

Assumptions used in determining fair values:

- of individual categories of investment instruments are described in Note 46 of the Notes,

- of investment properties are described in Note 23 of the Notes.

49. Contingent receivables and liabilities

The Group has contingent receivables and liabilities relating to legal claims arising in the ordinary course of business. The table below presents the Group's contingent receivables and liabilities as at the balance sheet date of 31 December 2019 and 31 December 2018.

(figures in PLN '000, unless stated otherwise)

	31.12.2019 Audited	31.12.2018 Audited
Contingent receivables		
From related entities due to:	**764 022**	**89 206**
Received guarantees and sureties	762 731	88 366
Bills of exchange received as collateral	1 291	840
Total contingent receivables	**764 022**	**89 206**

From related entities due to:		
From other entities due to:	**8 696 931**	**2 513 844**
Provided guarantees and sureties	899 060	897 239
Promissory notes	521 671	449 589
Mortgages	4 252 519	181 979
Assignment of receivables	1 429 992	887 692
Assignment of rights under insurance policy	120 137	40 483
Security deposits	21 900	24 612
Registered pledges	1 451 652	32 250
Total contingent liabilities	**8 696 931**	**2 513 844**

Contingent liabilities due to guarantees and sureties granted for the benefit of other entities are mainly guarantees issued by banks for the benefit of business partners of the Group members as collateral for their claims against the Group arising from the construction contracts performed (performance bonds, retention bonds and advance payment guarantees). Banks have a right of recourse against the Group's companies. Promissory notes are a different form of collateral for the aforementioned bank guarantees. In the period between the balance sheet date and the publication hereof, the Parent Company concluded new agreements for tender bonds, performance bonds and advance payment guarantees in the total amount of PLN 33,685 thousand.

As at December 31, 2019, except for the aforementioned contingent receivables and liabilities, the Group had contingent receivables in the amount of PLN 1 039 thousand (as compared to PLN 1 306 thousand) arising from the employment contracts signed with employees. If a manager fails to meet his or her obligations defined in Article 1 of the Non-Competition Agreement, he or she will pay, immediately and without a termination notice or any demand issued by the Group, a contractual penalty in the amount equal to the PLN equivalent of EUR 25,000 for each failure and the amount equal to the PLN equivalent of EUR 1,000 for each day in which such a failure occurs or continues. Contingent liabilities arising from employment contracts with employees were PLN 2,787 thousand as at December 31, 2019 (31.12.2018: PLN 8,072 thousand).

Tax settlements and other fields of business subject to regulations (for example, customs or foreign currency matters) may be subject to inspections by administrative authorities entitled to impose high penalties and sanctions. The lack of reference to the well-established legal regulations in Poland and Lithuania results in the legislation in force being ambiguous and inconsistent. Frequent differences in opinions as to the legal interpretation of tax regulations, both within the state authorities themselves and between such authorities and business entities, create conflicts and uncertainty. Such events result in the tax risk in Poland being much higher than in countries with more advanced tax systems. Tax settlements may be subject to inspection during the period of five years starting from the end of the year in which a given tax was paid. As a result of the inspections carried out, any current tax settlements of the Group may be increased by additional tax liabilities. In the Group's opinion, the provisions recognised as at the end of 2019 are sufficient to mitigate the recognised and measurable tax risk.

(figures in PLN '000, unless stated otherwise)

50. Service concession arrangements

Public-private partnership agreement

The Group recognises financial assets from concession arrangements. The table below presents changes in the financial asset from concession arrangement in the financial year.

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
Balance at the beginning of the period	-	**41 571**
Increases	-	**3 368**
Acquisition, establishment	-	3 368
Decrease	-	**(46 215)**
Settlement of remunaration given to the operator	-	(4 597)
Assets held for sale - transfer	-	(41 618)
Exchange rate differences	-	**1 276**
Balance at the end of the period	-	-

51. Significant court cases and disputes

Below, the Parent Company presents significant proceedings pending before a court or other authority concerning its liabilities or claims and its subsidiaries.

Proceedings concerning the Parent Company:

The case concerning claims against Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej with its registered office in Warsaw

The Parent Company merged with Przedsiębiorstwo Robót Kolejowych i Inżynieryjnych S.A. with its registered office in Wrocław. As a result of this merger, the legal successor of both companies is Trakcja PRKiI S.A. with its registered office 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. ("PNI") with an option of composition, Przedsiębiorstwo Robót Komunikacyjnych i Inżynieryjnych S.A. with its registered office in Wrocław provided a submission of claims of 20 November 2012 to the bankruptcy court. The submission covered claims in the total amount of PLN 55,664,100.89, including the principal amount and the interest due up to the declaration of bankruptcy, as well as the accrued contractual penalties.

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

Case against Leonhard Weiss International GmbH

As Leonhard Weiss International failed to respond to the statement including a debit note and a request for payment dated 31 October 2017, of which the Group informed in the consolidated report for the 9-month period ended 30 September 2017 in Note 25 "Interests in joint ventures", the Parent Company decided to take the case to court.
The case against Leonhard Weiss International GmbH ("LWI") for payment due under the sale agreement of 50% of shares in Bahn Technik Wrocław Sp. z o.o. The Parent Company has responded to the lawsuit. At present, it is not possible to precisely indicate the expected date of completion of the case. The Parent Company expects that an enforceable solution may be issued in 2020.

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

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

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

Case against ELTRANS sp. z o.o.

On May 30, 2019 the Company filed a lawsuit against ELTRANS sp. z o.o. based in Chorzow for the payment of PLN 2,768,004 plus interest as the payment of remuneration for delivery, assembly and training on operating two oil-less turbochargers.

On January 29, 2020 the court issued a decision to initiate the sanative proceedings.

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

Case against ALSTAL Grupa Budowlana sp. z o.o.

On May 22, 2019 the Company filed a lawsuit against ALSTAL Grupa Budowlana sp. z o.o. based in Jacewo for the payment of PLN 556,683.00 plus interest as the payment of remuneration for construction works performed as a contractor within the scope of the project ordered by Tauron Dystrybucja S.A. entitled "Network Management Development in Wrocław"

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

Proceedings against PKP PLK S.A.

On 31 October 2017, the Parent Company filed a case against PKP PLK S.A. for the payment of PLN 46,747,276.90 (including, interest of PLN 4,913,969.34), requesting that compensation be paid to it in connection with extension of the completion date of the agreement entitled: "Design and completion of construction works on the railway line Kraków – Medyka – State border, at the section Podłęże – Bochnia, km 16.000 – 39.000 as part of the project "Modernisation of railway line E 30/C-E30, section Kraków – Rzeszów, phase III" and a part of the lump-sum fee due to the Parent Company and unpaid by PKP PLK S.A. due to the submission of an unjustified statement on the withdrawal from the Agreement in part. On 12 December 2017, the Parent Company extended the claim whose current value is PLN 50,517,012.38 (including, interest of PLN 5,336,177.01). The extension pertained to the Parent Company's claims against PKP PLK S.A. in relation to the groundless enforcement of the contractual penalties accrued and the part of remuneration for the performance of the contract and agreements for additional works, which PKP PLK S.A. unreasonably refuses to pay. On October 18, 2018, the Parent Company extended the claim to PLN 51,767,012.38. The damage of the Parent Company includes PLN 1,250,000.00, which the Parent Company was obliged to pay to the Bocheński Poviat in order to satisfy the request of PKP PLK S.A. concerning the earlier – than it resulted from the Work Schedule – launching of track 1 on the Bochnia route - Brzesko Okocim. On 6 May 2019, the Parent Company extended the claim to PLN 84,121,127. The Parent Company extended the scope of the claims pursued also by the claims for damages against PKP PLK S.A., including tort claims of its subcontractors: Arcadis sp. z o.o., Torpol S.A. and PUT Intercor sp. z o.o. The case is at the early stage of proceedings and its resolution date is difficult to predict.

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

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

a) additional works in connection with Contract No 90/132/121/00/17000031/10/I/I dated 16 December 2010 for the “Design and implementation of the construction works at the railway line Kraków – Medyka – national border, at the section Dębica – Sędziszów Małopolski (111.500 km – 133.600 km) under the project POIiŚ 7.1-30 “Modernisation of railway line E30/C-E 30, section Kraków – Rzeszów, phase III” Tender proceedings 2.2” in the total amount of PLN 7,570,281.00,
b) additional works in connection with Contract No. 90/132/336/00/17000031/10/I/I dated 29 November 2010 for the “Design and implementation of the construction works at the railway line Kraków – Medyka – national border, at the section Sędziszów Małopolski – Rzeszów Zachodni under the project “Modernisation of railway line E3/C-E 30, section Kraków – Rzeszów, phase III” Tender proceedings 2.3” in the total amount of PLN 2,829,000.00.

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

On 27 August 2018, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 6,675,193.36 PLN (in words: six million six hundred seventy five thousand one hundred ninety three zlotys and thirty six groszy) along with statutory interest for delay, as compensation for unjust enrichment of the defendant in the form of unpaid remuneration for the performance of additional works related to the implementation of Agreement No 90/132/121/00/17000031/10/I/I of 16 December 2010 for “Designing and execution of construction works on the Kraków - Medyka - State border railway line on the Dębica - Sędziszów Małopolski section in km 111,500 - 133,600 as part of the POIiŚ 7.1-30 project "Modernization of the E30 / CE 30 railway line, Kraków - Rzeszów section, stage III" Tender 2.2 "specified in the Contractor's Applications No. 72 (gas pipeline) and No. 85 (Bystrzyca creek), which constitutes the principal amount of the present claim, i.e. PLN 6,283.547.59 and capitalized interest on the principal for the period from 6 October 2017 to 27 August 2018.The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 22 October 2018, the Company filed a lawsuit for payment against PKP PLK S.A., seeking the amount of PLN 632,459.66 (in words: six hundred thirty-two thousand four hundred fifty-nine zlotys and sixty-six grosz) along with statutory interest for delay, for additional works not provided for in the Agreement No 90/107/0086/17/Z/I of 14 March 2017 for the preparation of design documentation and performance of construction works on the Poznań Wschód - Mogilno section from km 0.265 to km 73.000, as a part of the project: "Works on the railway line No 353 Poznań Wschód-Dziarnowo", i.e. works on the construction of additional access ways to platforms at the Wydartowo station, additional suspension of the overhead contact line on the Wydartowo - Trzemeszno route and preparation of maps for design purposes, as well as incurring additional costs related to the unpredictable increase in prices of services provided by PKP Energetyka on the overhead contact line. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 29 November 2018, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 20,934,758.14 PLN (in words: twenty million nine hundred thirty-four thousand seven hundred fifty-eight zlotys and fourteen grosz) along with statutory interest for delay, as reimbursement for the costs of extension of the implementation of Agreement No 90/132/336/00/17000031/10/I/I of 29 November 2010 for "Designing and execution of construction works on the Kraków - Medyka - State border railway line on the Dębica - Sędziszów Małopolski section in km 133.600 - 154.900 as part of the POIiŚ 7.1-30 project "Modernization of the E30 / CE 30 railway line, Kraków - Rzeszów section, stage III" Tender 2.2", due to circumstances within the scope of responsibility of PKP PLK S.A., both under the provisions of the Contract, as a public procurement contract, as well as general liability for damages specified in the provisions of the Civil Code. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 17 January 2019, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 12,296,388.86 PLN (in words: twelve million two hundred ninety-six thousand three hundred eighty-eight zloty and eighty-six grosz) along with statutory interest for delay, as reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0085/15/Z/I for "Continuation of upgrade work on Railway Line E59 (track and subgrade work and track infrastructure work) as part of the POIiŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section" due to circumstances within the scope of responsibility of PKP PLK S.A. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On 3 April 2019, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 1,320,495.25 PLN (in words: one million three hundred twenty thousand four hundred ninety-five zloty and twenty-five grosz) along with statutory interest for delay, as:

a) reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0090/15/Z/I for Construction of civil engineering structures on km 160,857; km 155.170 and km 145.650 of railway line No 271 Wrocław – Poznań, as part of the POIiŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section" – as regards the Partial Contract A – railway viaduct on km 145.650 in Mosina, due to circumstances within the scope of responsibility of PKP PLK S.A.,

b) reimbursement for the costs of additional works performed by the Company, not provided for in the Contractor's Bid for the contract in question.

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

On 2 April 2019, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 489,147.29 PLN (in words: four hundred eighty-nine thousand one hundred forty-seven zloty and twenty-nine grosz) along with statutory interest for delay, as a reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0092/15/Z/I for Construction of civil engineering structures on km 160,857; km 155.170 and km 145.650 of railway line No 271 Wrocław – Poznań, as part of the POIiŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section" – as regards the Partial Contract C – railway viaduct on km 160.857 in Mosina, due to circumstances within the scope of responsibility of PKP PLK S.A., The case is at the early stage of proceedings and its resolution date is difficult to predict.

(figures in PLN '000, unless stated otherwise)

On 13 June 2019, the Parent Company filed a suit against PKP PLK S.A. with the motion requesting security for the Parent Company's claim, the subject of which being stipulating the contents of the Parent Company's contractual obligations under agreements No. 90/132/121/00/17000031/10/I/I of 16 December 2010 on "Design and performance of construction works on the railway line Krakow – Medyka – state border on the section Dębica – Sędziszów Małopolski, in km 111,500–133,600 under the OPIE project 7.1-30 "Modernisation of the railway line E30/C-E 30, on the section Krakow–Rzeszów, Stage III" Tender 2.2 and No. 90/132/336/00/17000031/10/I/I of 29 November 2010 on "Design and performance of construction works on the railway line Krakow – Medyka – state border on the section Sędziszów Małopolski – Rzeszów Zachodni under the project "Modernisation of the railway line E3-/C-E 30, on the section Krakow – Rzeszów, stage III" Tender 2.3. Disputable circumstances in the case comprise the necessity of issuing the declaration of compliance of the fixtures or constructions with the type in compliance with the Act on Railway Transport, as well as the correctness of the design and performance of noise barriers. The amount claimed by the plaintiff is PLN 12,301,072. The case is at the early stage of proceedings and its resolution date is difficult to predict.

Proceedings concerning subsidiaries:

AB Kauno Tiltai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, of which a subsidiary, AB Kauno Tiltai, is a member, for a total amount of PLN 67,715,319 (EUR 14,989,556). Pursuant to a decision of the court, this amount was reduced to PLN 4,706,684 (EUR 1,041,878). The share of Trakcja Group in liabilities (if any) that may arise from these proceedings is 65%. The Group refrained from making any other disclosures related to this court case by invoking clause 92 of IAS 37. According to the Management Board of The Parent Entity those disclosures may reveal information to parties of court proceedings, which can be used in the ongoing proceedings against the interests of the subsidiary AB Kauno tiltai.

52. Dividends paid and declared

In 2019, a dividend was not paid by the Company.

53. Assets pledged as collateral

Assets pledged as collateral:

	31.12.2019 Audited	31.12.2018 Audited
Property, plant and equipment	221 340	62 716
Investment properties	20 633	844
Inventory	112 648	17 244
Deposits	17 424	18 880
Receivables	41 963	5 858
Cash	29 777	28 873
Total	**443 785**	**134 415**

Assets pledged:

- 82.35% of shares in Torprojekt Sp. z o.o., a subsidiary;

(figures in PLN '000, unless stated otherwise)

- 94.62% of shares in PDM Białystok S.A., a subsidiary;

- 100.00% of shares in Dalba Sp. z o.o., a subsidiary;

- 100.00% of shares in PRK 7 Nieruchomości Sp. z o.o., a subsidiary;

- 99.70% of shares in PEUiM Sp. z o.o., a subsidiary;

- 30.00% of shares in AB Kauno Tiltai, a subsidiary;

- 100.00% of shares in Bahn Technik Wrocław Sp. z o.o., a subsidiary.

- shares in UAB Kelda, a subsidiary belonging to the AB Kauno Tiltai Group

The total book value of the pledges listed above, disclosed in individual companies, amounts to PLN 145,964 thousand.

54. Income, expenses and profit (loss) from discontinued operations

As at 31 December 2019 and 31 December 2018, the Group did not discontinue any operations.

55. Related party disclosures

In 2019, the Group companies did not enter into any material transactions with related parties on non-arm's length terms. Transactions made by the Parent Company and its subsidiaries (related entities) are the arm's length transactions and their nature is a result of the current operations conducted by the Parent Company and its subsidiaries.

Transactions between the Company and its subsidiaries being the Company's related entities are eliminated during consolidation and are not included in this Note. Information about transactions between the Group and other related parties are detailed below.

Total amounts of related-party transactions in the financial year:

Related entities	Financial year	Sale to related entities	Purchases from related entities	Interest revenue	Interest costs	Financial revenue from FX differences and other	Financial costs from FX differences and other
Shareholders of parent entity							
COMSA S.A.	1.01.19-31.12.19	2	862	-	362	-	82
	1.01.18-31.12.18	5 512	2 595	-	-	-	-
Agencja Rozwoju Przemysłu	1.01.19-31.12.19	-	-	-	319	-	286
	1.01.18-31.12.18	-	-	-	-	-	-
Total	**1.01.19-31.12.19**	**2**	**862**	**-**	**681**	**-**	**368**
	1.01.18-31.12.18	**5 512**	**2 595**	**-**	**-**	**-**	**-**

(figures in PLN '000, unless stated otherwise)

Receivables from and liabilities to related parties as at the end of the financial year concerned:

Related entities	Reporting date	Receivables from related entities	Liabilities towards related entities	Loans granted	Borrowings received
Shareholders of parent company:					
COMSA S.A.	31.12.2019	-	188	-	7 656
	31.12.2018	4 038	2 117	-	-
Agencja Rozwoju Przemysłu	31.12.2019	-	184	-	27 668
	31.12.2018	-	-	-	-
Total	**31.12.2019**	**-**	**372**	**-**	**35 324**
	31.12.2018	**4 038**	**2 117**	**-**	**-**

The Parent Company and its shareholder, COMSA S.A., have signed an agreement for granting to the Parent Company a licence for the entire technical know-how and trademark, as well as for providing intangible goods in the form of competences, industry knowledge and expert knowledge in terms of organisation, operations, sales and technology of COMSA S.A. The agreement was concluded at arm's length. The consideration for the provision of the above services by COMSA S.A. amounted to PLN 862 thousand in 2019. In 2019, the aforementioned agreement was terminated. Simultaneously, as a result of the financing agreements, the amount of remuneration for COMSA S.A. was converted into a subordinated loan.

No guarantees were granted to or by the Company. No costs of receivables that are doubtful and at risk, which are due in transactions with the related entities, were recognised in the reporting period.

56. Information on benefits for key personnel

The Management Board of the Parent Company is the key management personnel of the Group.

Remuneration for the Parent Company's Management Board is presented below.

	Year ended			
Salary of Management Board	**31.12.2019 Audited**		**31.12.2018 Audited**	
	In Parent company	**In subsidiaries**	**In Parent company**	**In subsidiaries**
Salaries and other current employee benefits	3 673	741	3 955	857
Post-employment benefits	996	-	491	-
Benefits due to termination of employment	1 273	-	273	-
Total	**5 942**	**741**	**4 719**	**857**

For details of agreements concluded with managing persons, see section 5.9 and for additional information on remuneration of members of the Management Board and Supervisory Board, see section 5.8 of the Directors' Report on the operations of Trakcja Group and Trakcja PRKiI S.A. in the financial year ended 31 December 2019.

The Management Board members of Trakcja PRKiI were not shareholders, controlling shareholders, jointly-controlling shareholders, or shareholder exerting a significant impact on the entities other than members of Trakcja Group.

In 2019 and 2018, the Parent Company and the Group's management staff did not enter into any significant transactions. In 2019, no borrowings were granted to the Management Board members or Supervisory Board members of Trakcja PRKiI.

(figures in PLN '000, unless stated otherwise)

Remuneration of the Parent Company's Supervisory Board:

Salary of Supervisory Board	**Year ended**			
	31.12.2019 Audited		**31.12.2018 Audited**	
	In Parent company	**In subsidiaries**	**In Parent company**	**In subsidiaries**
Salaries and other current employee benefits	1 032	538	996	479
Total	**1 032**	**538**	**996**	**479**

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

Significant events in the financial year are described in detail in Section 2.4 of the Directors' Report on the operations of the Group in 2019. After the balance sheet date and until the date of preparation of these consolidated financial statements, i.e. until 21 April 2020, no events occurred which have not but should have been disclosed in the accounting books for the financial year.

Events after the balance sheet date

Other	CR
10.01.2020 The Company made public dates of publication of periodic reports in 2020.	1/2020
14.01.2020 The Company made public the content of resolutions adopted by the Ordinary General Meeting of the Company, which was held on January 14, 2020.	2/2020
14.01.2020 The Company forwarded a list of shareholders holding at least 5% of the total number of votes at the Ordinary General Meeting of the Company, which was held on 14 January 2020 in Warsaw.	3/2020
10.02.2020 The Company announced the registration of a conditional capital increase by the District Court for the capital city of Warsaw in Warsaw and changes in the Company's Statute	4/2020
24.02.2020 The Management Board of Trakcja PRKiI S.A. informed about change of Company's address	5/2020
27.02.2020 The Company published the preliminary estimated financial results for the period of 12 months ended on 31 December 2019.	6/2020
17.03.2020 The Management Board of Trakcja PRKiI S.A. based on the recommendation of the Polish Financial Supervision Authority and its own analysis, made public information about the possible impact of the spread of the SARS CoV-2 coronavirus on the financial situation of the Issuer and its capital group	7/2020
18.03.2020 The Company has decided to recognize write-off of the value of investments in subsidiaries in Trakcja PRKiI's balance sheet in the amount of PLN 114.187 thousand and the value of goodwill in Trakcja Group's consolidated balance sheet in the amount of PLN 138.182 thousand.	8/2020
06.04.2020 The company announced that, taking into account the COVID-19 epidemic, it has taken measures to reduce the negative impact of the situation on the Company's operations and results.	9/2020

Impact of the SARS CoV-2 (COVID-19) pandemic on the activities and financial condition of the Group

The rapid spread of the SARS CoV-2 virus in Poland and on other markets, on which the Company and its subsidiaries carry out its business activities may have an impact on the Company's financial performance in 2020. As at the date hereof, the Management Board expects that the actual pandemic state in Poland which results, in particular, in:

- Transport being limited and delivery of components and raw materials being irregular,

- Availability and efficiency of subcontractors being reduced,
- Administrative decisions on the construction contracts implemented being delayed,
- The progress in works experiencing a slowdown due to the introduction of emergency measures in accordance with the guidelines issued by the Ministry of Health and the Chief Sanitary Inspector, and due to the increased absence of employees,
- Costs of certain services, in particular, transport of materials and raw materials, being increased,

  The completion by the Group of contracts, under which the Group companies act as contractors or subcontractors, may be delayed and as a consequence translate into a risk that the contracting parties may file claims for contractual penalties to be paid by the Group companies for untimely completion of contracts. The aforementioned factor may also result in an extraordinary increase in prices for materials and services being experienced, which in turn shall result in the profitability of contracts being reduced. Furthermore, the COVID-19 pandemic may contribute to a decrease in the number of infrastructural investment projects being scheduled for the following years.

Despite the fact that as at the date hereof both the business entities and financial institutions continue their operations, the further spread of the SARS CoV-2 virus may result in the Company's business partners, courts and financial institutions being forced to adapt their operations to the circumstances pending, which may cause delays in obtaining financial funds necessary for the Company to:

- fulfil its financial obligations,
- acquire new contracts, if the Company has no required financial security such as guarantees or deposits,
- meet its obligations under the long-term financing documentation (of which the Company notified in Current Report no. 51/2019 of September 27, 2019) that forms part of the financial restructuring process of the Group.

Measures taken by the Company's Management Board

On April 6, 2020 the Management Board and trade unions concluded an agreement under which the working hours of employees were reduced by 10%, and as a result the salaries paid according to a monthly wage rate were decreased accordingly. The aforementioned reduction in the working hours applies mainly to white-collar employees and at the same time allows for the contract performance potential to be maintained. The agreement remains valid until June 30, 2020.

The aforementioned 10%-decrease applies also to remuneration of the management board members, supervisory board members, and also self-employed and service providers who collaborate with the Company.

In addition, it has been decided that payment of any bonuses, awards, allowances and severance pays is suspended and that overtime and use of company cars are to be reduced. The contribution to the company social benefits fund is also to be reduced by 25%.

The Company estimates that the aforementioned measures will allow it to achieve monthly savings of approximately PLN 1.8 million.

Due to the fact that as at the date hereof the precise and final impact of the SARS CoV-2 pandemic on the Group's situation has not yet been identified, the Company's Management Board monitors on an ongoing basis the developments and analyses the potential impact of the pandemic on the operations, performance and perspectives of both the Company and the Group, including a necessary change in the measurement of contracts and the Group's liquidity ratio.

(figures in PLN '000, unless stated otherwise)

The Covid-19 pandemic may have an effect in the future on the measurement of the Company's assets, including the tests on impairment loss. For potential consequences of the pandemic on the test results, please see Note 24 hereto.

58. Financial statements in high inflation periods

The accumulated average annual inflation rate for the last three years for each of the periods covered by these consolidated financial statements did not exceed 100%, and therefore the financial statements did not have to be restated using the consumer price index.

59. Employment

Average headcount at the Group was as follows:

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
Average employment in the Capital Group during the period:		
Management Board of Parent entity	5	5
Management Boards of subsidiaries	20	20
Administration	255	271
Sales department	32	31
Production division	1 254	1 284
Machine Operators	599	563
Technical staff	136	149
Other employees	46	53
Total	**2 347**	**2 376**

As at 31 December 2019, headcount at the Group was as follows:

	31.12.2019 Audited	31.12.2018 Audited
Employment in the Capital Group at the balance sheet date		
Management Board of Parent entity	6	4
Management Boards of subsidiaries	18	18
Administration	261	280
Sales department	29	106
Production division	1 251	1 256
Machine Operators	532	525
Technical staff	134	146
Other employees	45	50
Total	**2 276**	**2 385**

60. Assets and liabilities of the company social benefits fund (ZFŚS)

In accordance with the Act on the Company Social Benefits Fund of March 4, 1994, as amended, the company social benefits fund is established by employers that employ more than 20 employees in the equivalent of fulltime job positions. The Group established the fund and has been making regular contributions to this fund in the basic amount. The objective of the fund is to subsidise the Group's social activities, loans granted to its employees and other social costs. The Group set off the fund's assets with its liabilities towards the fund, because such assets are not separate assets of the Group.

(figures in PLN '000, unless stated otherwise)

The table below present the analysis of assets, liabilities, costs and net balance of the offset assets and liabilities of the fund:

	31.12.2019 Audited	31.12.2018 Audited
Loans granted to employees	458	693
Cash	1 678	639
Prepayments	22	(24)
Liabilities attributable to the Fund	(1 177)	(1 151)
Balance after compensation	**981**	**157**
Contributions to the fund during the financial period	**1 789**	**1 684**

61. Information on the statutory auditor

Pursuant to a resolution adopted by the Supervisory Board of Trakcja PRKiI, the entity authorised to audit financial statements of the Group and the Company is BDO spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw at ul. Postępu 12.

On August 21, 2019 the Company and BDO spółka z ograniczoną odpowiedzialnością sp. k. entered into an agreement for:

- the examination of the separate and consolidated half-yearly financial statements as at June 30, 2017 in accordance with the International Accounting Standards,
- the audit of the separate and consolidated annual financial statements as at December 31, 2017 in accordance with the International Accounting Standards,
- the examination of the separate and consolidated half-yearly financial statements as at June 30, 2020 in accordance with the International Accounting Standards,
- the audit of the separate and consolidated annual financial statements as at December 31, 2020 in accordance with the International Accounting Standards.

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

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

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

	Year ended	
	31.12.2019 Audited	31.12.2018 Audited
On account of agreement for financial statement audit	344	239
On account of agreement for financial statement review	135	76
On account of other agreements	10	21
Total	**489**	**336**

62. Risk to the Parent Company's ability to continue as a going concern and measures taken and planned by the Parent Company's Management Board

Trakcja PRKiI S.A. is the Parent Company of the Trakcja Capital Group. The Group's condition is closely dependent on the condition of the Parent Company.

In connection with Note 5 of the Notes to the abbreviated separate financial statements that form part of the consolidated quarterly report of Trakcja Group for the 9-month period ended September 30, 2019, the Parent Company's Management Board presents the update regarding the issues described in the above note to the financial statements.

Going concern

These financial statements for 2019 were prepared based on the going concern assumption and, therefore, do not contain any adjustments in respect of different policies for the recognition and measurement of assets and liabilities that would be required if the going concern assumption was unjustified.

The Management Board of the Company presented the following information on the current financial standing of the Company, indicating the risk to the Company's going concern status in the period of twelve months from the date of preparation of the financial statements.

Risk to the going concern status

As at the balance sheet date, the Company reported a net loss of PLN 249,678 thousand and a negative net working capital of PLN 59,406 thousand.

As at the balance sheet date, total financial liabilities on account of loans and leases amounted to PLN 359,388 thousand (long-term portion: PLN 199,909 thousand, short-term portion: PLN 159,479 thousand).

As at the balance sheet date, trade liabilities amounted to PLN 265,074 thousand, including overdue liabilities of PLN 87,200 thousand. Where possible, they are settled by the Company using current proceeds.

In view of the above factors, there is a risk to the Company's ability to continue as a going concern. Owing to the ongoing financial restructuring process, the aforementioned risk has been significantly reduced.

General situation of the Company and measures taken

The Company's performance for the period of 12 months ended 31 December 2019 was as follows:

• gross profit/loss on sales: PLN -92,890 thousand (in 2018: PLN -124,958 thousand)

• EBITDA: PLN -120,785 thousand (in 2018: PLN -86,986 thousand)

• net profit/loss: PLN -249,678 thousand (in 2018: PLN -86,687 thousand)

• equity: PLN 349,925 thousand (in 2018: PLN 539,705 thousand)

On February 27, 2020 the financial data collection process and the long-term contract periodical revision were completed, as a result of which margins on contracts were revalued and this had the total effect in the amount of PLN (-61,421) thousand on the Company's performance in 2019.

The Company provided details on this event in Current Report 6/2020.

Factors that had the most crucial effect on the gross margin on sales and EBITDA in the 12-month period of 2019 are as follows:

- Settlement of low-margin contracts awarded in the previous years that were more difficult in terms in contract awarding opportunities and before a significant increase in the production costs;

- prolonged process of refinancing the operating activities of Trakcja PRKiI S.A. exacerbating the drop in profitability on construction contracts;

- Prolonged refinancing process had also an effect on a delay in signing two railway contracts with higher profitability and on the Company's inability to settle them in 2019, and therefore to generate the revenues planned;

- Budgets were revised in terms of their nature, amounts, distribution in time and uncertainty as to whether revenues and cash flows from the contracts performed would be generated;

- During the revision of budgets, opportunities and threats were analysed, including the identification and inclusion of any risks of technology, implementation and liquidity;

- For two railway contracts, the Company recognised revenues in the amount of the costs incurred in keeping with IFRS 15 para. 45.

- The amount of court claims filed by the Company towards contracting entities, accounted for in long-term contract budgets, was adjusted by the risk factor and the probability factor. The amount of claims recoverable by the Company is between PLN 35 and 50 million. The amount was estimated on the basis of expert opinions and estimates of the Company, based on historical data and analyses of individual contracts. In addition, the parent entity included revenues from any contractual claims in the measurement of a significant road contract.

In addition to the aforementioned factors, the decision on impairment losses on the investment in subsidiaries had also an effect on the net profit/loss disclosed in the separate balance sheet in the amount of PLN 114,187 thousand (AB Kauno Tiltai: PLN 112,857 thousand and BTW Sp. z o.o.: PLN 1.330 thousand). The impairment losses were recognised in a non-cash form and had no effect on the Company's current liquidity.

As at December 31, 2019 the net value of the Company's contract portfolio was almost PLN 2,295 million (excluding revenues allocated to consortium members). In the period from January 1, 2019 to December 31, 2019, the Company signed contracts with the total net value of PLN 974 million (excluding any revenues allocated to consortium members), of which most exceeded the investor budgets.

The largest contracts signed by the Company in 2019 are as follows:

a) "Renovation of railway lines no. 694/157/190/191 Bronów – Bieniowiec – Skoczów – Goleszów – Cieszyn/Wisła Głębce", part A, whose details have been described in Current Report 57/2019 (the net value of the Company' share: PLN 349.2 million);

b) "Reconstruction of track systems and accompanying infrastructure at the E59 railway line, Stargard – Szczecin Dąbie section, under the project entitled "Works at the E59 railway line, Poznań Główny – Szczecin Dąbie section, whose details have been described in Current Report 57/2019 (the net value of the Company's share: PLN 280.3 million);

c) "Reconstruction of track systems and accompanying infrastructure at the E59 railway line, Choszczno – Stargard section, under the project entitled "Works at the E59 railway line, Choszczno – Stargard section, whose details have been described in Current Report 60/2019 (the net value of the Company's share: PLN 199.2 million);

d) “Reconstruction of tram tracks along the Krakowska street in the section from ul. Rollego to ul. Dietla, including reconstruction of the existing road system, pavements, paths, accompanying technical infrastructure, Krakowska – Dietla – Stradomska road junction, as well as reconstruction of ul. Dietla in the section from ul. Boże Ciało to ul. Augustiańska and reconstruction of the existing Piłsudskiego bridge over the Vistula River”, whose details have been provided in Current Report 2/2019 (the net value of the Company's share: PLN 76.6 million).

e) “Reconstruction of a traction line along with accompanying works in the Racibórz – Chałupki section and a culvert at km 49,872 of railway line 151” under the project entitled “Works at railway line E-59 in the Kędzierzyn Koźle – Chałupki (state border) section” (the net value of the Company’s share: PLN 28.3 million).

In the period from January 1, 2019 to December 31, 2019, the Company’s Management Board undertook negotiations with PKP PLK to amicably settle court disputes. The Company’s Management Board negotiates payment of contractual claims proceeded in court from PKP PLK, the total amount of which as at the publication hereof amounts to approximately PLN 156,800 thousand (gross amount along with interest capitalized as at the date of filing the statement of claim). The Company conducts negotiations with PKP PLK with the participation of the State Treasury Solicitor’s Office [Prokuratoria Generalna]. At this stage, the Company’s Management Board is not able to define the end date of negotiations. The Company includes court claims filed by contracting entities in the long-term contract budgets, as further described in Note 46 of the Notes. Irrespective of the foregoing, the Company seeks redress out of court in the amount of approximately PLN 196,176 thousand (including PLN 164,822 thousand for the Company).

On May 22, 2019 the Company, as the leader and authorised representative of the consortium, has filed a statement of withdrawal, for reasons attributable to the contracting party, from the agreement no. ZDW.N4.363.02.2016 concluded on April 19, 2017 between the Kujawsko-Pomorskie Province, on behalf of which Zarząd Dróg Wojewódzkich [Provincial Roads Directorate] in Bydgoszcz acted (”Contracting Party“), the subject of which was to implement the task entitled “Expansion of provincial road no. 548 Stolno-Wąbrzeźno from km 0+005 to km 29+619, excluding the highway junction in Lisewo from km 14+144 to km 15+146” (”Agreement”), with regard to any uncompleted part of the Agreement. In connection with the withdrawal, the Company intends to pursue claims against the Contracting Party, concerning payment of contractual penalties and unpaid remuneration for works performed under the Agreement until the date of withdrawal. The gross value of the Agreement was agreed by the Parties at PLN 83,796,445.61. The Company assesses that the claims to be asserted by the Company against the Contracting Party in connection with the withdrawal for reasons attributable to the Contracting Party will be at least PLN 11 million (gross) due to the settlement of the works performed and accepted, and PLN 7,876,665 due to contractual penalties. Other details have been described in Current Report 9/2019.

Furthermore, on March 12, 2020 the Contracting Party submitted a statement of withdrawal from the contract for the "Design and completion of construction works at the bypass of Zatora, Podolsza along DW No. 781” through the fault of the Company. The statement was challenged by the Company by letter no. 1043/ZAT/2020/EM of March 18, 2020. Having regarded the Contracting Party's withdrawal as ineffective and having called on the Contracting Party to cooperate under the contract and having received no replay on part of the Contracting Party, the Company submitted a statement of withdrawal from the Contract through the fault of the Contracting Party on March 31, 2020.

By letter dated March 8, 2019, emailed to the Company on March 8, 2019, the Contracting Party provided the Company with a statement of withdrawal from the Contract (Contract No. 50/2017/2018 for the design and construction of a building structure under the name: “Expansion of Province Road No. 224 in the section between Godziszewo and A1 Stanisławie highway junction”) through the fault of the Company. By letter dated April 04, 2019 the Company challenged the effectiveness of the aforementioned statement made by the Contracting Party, and indicated that such a withdrawal could not have been found effective either under Article 635 of the Civil Code in conjunction with Article 656 § 1 of the Civil Code or under Article 17 para. 3 pt. 4 of the contract concerned. The Contracting Party's failure to take any action resulted in the Company submitting to the Contracting Party on March 8, 2019 a statement of withdrawal from the contract and calling on the Contracting Patty to pay a contractual penalty of PLN 2,028,000.00 in accordance with Article 15 para. 3 pt. b) of the contract concerned and the amount of PLN 338.889,80 for the unsettled scope of works in the Stargard section at the Project Documentation stage. By letter of May 15, 2019 the Contracting Party rejected the Company's withdrawal. On August 7, 2019 the parties signed a pre-court settlement according to which: The Parties cancel their statements of withdrawal and as at the conclusion of the settlement they terminate the contract by mutual agreement; the Parties adjust the notes, the Company performs the works specified in the settlement, the Contracting Party accepts the so far performed works, and having examined thoroughly their rights and obligations, the parties stated that they have no other claims against each other under the contract concerned.

When measuring the construction contracts as at the balance sheet date, the Company took into account any negative and positive effects of the aforementioned contractual actions, to the best of its knowledge, considering the likelihood of their occurrence.

In addition to the activities that affect the improvement of future financial performance, the Company's Management Board focuses mainly on the Company's liquidity. The Company pursues an active liquidity management policy, monitoring the liquidity on an ongoing basis in a short and long term, and also conducts continuous monitoring of cash flow aiming at maintaining a stable level of available financing. To maintain liquidity, the Company undertakes activities aiming at obtaining contracts foreseeing advance payments. The Company places emphasis on the optimization of invoicing processes through the shortening of the period between the performance of works and the invoicing of the completed works. The Company uses newly acquired long-term financing funds to reduce any overdue liabilities and to identify any works under construction contracts.

As at December 31, 2019 the Company held cash and cash equivalents in the amount of PLN 47,514 thousand, as well as an overdraft and working capital loans in the total amount of up to PLN 29 million.

As at the day preceding the signing hereof, the Company held cash in the amount of PLN 6,893 thousand and EUR 32 thousand, as well as the overdraft and working capital loans disbursed in the amount of up to 1 million PLN.

New sources of financing

a) Bridge financing

On June 13, 2019 to maintain liquidity until the signing of the agreement on restructuring / obtaining new financing and capital, the Company signed the bridge financing documentation, providing for the below total amounts:

- PLN 31,000,000.00 in the form of a working capital loan with term draw downs, made available under a loan contract between the Company and its subsidiaries, i.e.: Bahn Technik Wrocław sp. z o.o., PRK 7 Nieruchomości sp. z o.o., Przedsiębiorstwo Drogowo Mostowe BIAŁYSTOK S.A., Przedsiębiorstwo Produkcyjno-Usługowe DALBA sp. z o.o., mBank S.A. and Credit Agricole Bank Polska S.A.

- PLN 33,000,000.00 in the form of guarantee lines, made available pursuant to a loan contract;

- PLN 70,618,725.62 in the form of guarantee lines granted on the basis of Bilateral Credit Lines

- PLN 20,000,000.00 in the form of a loan between the Company and COMSA, S.A.U.

The aforementioned events have been detailed by the Company in current reports no. 12/2019; 19/2019; 20/2019; 21/2019; 22/2019; 24/2019; 32/2019; 33/2019; 40/2019; 41/2019.

b) Long-term financing

On September 27, 2019 the Company signed documentation for targeted long-term financing that included:

1. Annex that introduced the amended and unified Loan Agreement concluded between the Company and Bahn Technik Wrocław sp. z o.o., PRK 7 Nieruchomości sp. z o.o., Przedsiębiorstwo Drogowo Mostowe BIAŁYSTOK S.A., Przedsiębiorstwo Produkcyjno-Usługowe DALBA sp. z o.o., as borrowers and surety providers, and Torprojekt sp. z o.o., Przedsiębiorstwo Eksploatacji Ulic i Mostów sp. z o.o., as surety providers (hereinafter referred to as the "Related Parties"), and mBank S.A. with its registered office in Warsaw, Credit Agricole Bank Polska S.A. with its registered office in Wrocław, Bank Gospodarstwa Krajowego with its registered office in w Warsaw, as creditors and Agencja Rozwoju Przemysłu S.A. with its registered office in Warsaw ("ARP") as the creditor, under which the Related Parties being borrowers were granted new working capital loans in the maximum amount of up to PLN 104,600,000 and a revolving loan in the maximum amount of up to PLN 27,600,000 as well as a new guarantee line for advance payment guarantees in the maximum amount of up to PLN 200,000,000 ("Unified Credit Loan"),

2. Annex that introduced the amended and unified agreement between creditors of June 13, 2019 concluded between the Company, Related Parties, COMSA and creditors, i.e.: Bank Gospodarstwa Krajowego, ARP, mBank S.A., Credit Agricole Bank Polska S.A., Bank Polska Kasa Opieki S.A., AXA Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji S.A., Credendo — Excess & Surety Societe Anonyme, Sopockie Towarzystwo Ubezpieczeń ERGO Hestia S.A., Korporacja Ubezpieczeń Kredytów Eksportowych S.A., Generali Towarzystwo Ubezpieczeń S.A. and COMSA, Powszechny Zakład Ubezpieczeń S.A. and Uniqa Towarzystwo Ubezpieczeń S.A. ("Creditors"), which defines the terms on which the Creditors may take enforcement measures against the Company and the Related Parties, and which appoints the collateral agent and determines the seniority of debt owed to the Creditors by the Company and the Related Parties and also the collateral established for the Creditors by the Company and the Related Parties ("Unified Creditor Agreement"),

3. Agreement on common terms concluded between the Company, the Related Parties, mBank S.A., Credit Agricole Bank Polska S.A., Bank Polska Kasa Opieki S.A., Bank Gospodarstwa Krajowego and ARP ("Agreement on Common Terms"),

4. Annex that introduced the amended and unified agreement on harmonisation of selected terms of guarantees and the surety agreement of June 13, 2019, between the Company, Related Parties, AXA Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji S.A., Credendo - Excess & Surety Societe Anonyme, acting in Poland through the agency of Credendo - Excess & Surety Spółka Akcyjna Branch in Poland, Generali Towarzystwo Ubezpieczeń S.A., Korporacja Ubezpieczeń Kredytów Eksportowych S.A., Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A., Powszechny Zakład Ubezpieczeń S.A. and UNIQA Towarzystwo Ubezpieczeń S.A., in relation to which on September 27, 2019 agreements for new guarantee lines were signed, in keeping with which insurance companies agreed to provide the Company with revolving guarantee lines for tender bonds and performance/retention bonds in the maximum amount of up to PLN 616,568,276.

Any loan and guarantee line granted under the aforementioned agreements may only be disbursed, if the Company and the Related Parties meet certain conditions precedent indicated therein, including in particular, introduction of changes in certain existing collateral through an increase in its maximum amount and expansion of certain existing collateral established for Bank Gospodarstwa Krajowego and ARP, establishment of new collateral and an increase in the Company's share capital, under which the Company acquires at least PLN 39,600,000, as well as in the conclusion of lease contracts for specific machines of Bahn Technik Wrocław sp. z o.o.

Pursuant to the Unified Loan Agreement and in keeping with terms specified therein, the Company and the Related Parties being the creditors have been granted:

(i) revolving loan 1 disbursed in drawings up to the total amount of PLN 31,000,000 for the purpose of paying any overdue liabilities and financing the ongoing activities or for granting intra-group loans with the maturity date up to December 31, 2022, the funds have been acquired at the stage of bridge financing,

(ii) revolving loan 2 in the total amount of up to PLN 75,000,000 and an open-end loan to be disbursed on the same terms and the revolving loan in the total amount of up to PLN 27,600,000 for the purpose of financing the working capital and ongoing activities of the Company with the maturity date of December 31, 2022,

(iii) revolving loan 3 disbursed in drawings in the total amount of up to PLN 17,600,000 granted for the purpose of financing the working capital and ongoing activities with the maturity date of December 31, 2022,

(iv) revolving loan 4 disbursed in drawings in the total maximum amount of up to PLN 12.000.000 granted for the purpose of financing the working capital and ongoing activities with the maturity date of December 31, 2022, which was not disbursed as at the balance sheet date,

(v) non-revolving guarantee line granted within the bridge financing for the reimbursement of advance payment under a specific contract concluded by the Company and whose beneficiary is PKP Polskie Linie Kolejowe S.A., in the total amount of PLN 25,000,000,

(vi) non-revolving guarantee line granted within the bridge financing for the performance bond, whose beneficiary is Generalna Dyrekcja Dróg Krajowych i Autostrad, in the total amount of PLN 8,000,000,

(vii) revolving guarantee line for advance payment guarantees for new contracts made by the Company or the Related Parties, whose beneficiary is the entity acceptable to all the issuers of such a guarantee in the total amount of PLN 200,000,000.

In addition, according to the Unified Creditor Agreement, ARP may be granted bonds convertible to the Company's shares up to PLN 20,000,000, whose collateral shall be a mortgage on the Company's property located in Bieńkowice, if the issue of such bonds is adopted by resolution by the Company's General Meeting of Shareholders. In addition, in relation to the conclusion of the Unified Creditor Agreement, the Company and ARP concluded an additional agreement ("Agreement"), in which they confirmed the intentions of the parties with regard to the key parameters of the bonds convertible to the Company's shares which can be granted to ARP under the Unified Creditor Agreement. Pursuant to the Agreement, if the Company's Management Board decides to convene the General Meeting of Shareholders, according to whose agenda resolutions are to be adopted on the issue of bonds convertible to the Company's shares and on their acquisition by ARP (and provided that the Company makes the relevant corporate decisions, including the appropriate change in the Company's articles of association), the Company's Management Board shall propose to the General Meeting of Shareholders that resolutions be adopted on the terms of the bond issue, which have been specified in the draft resolutions provided in Current Report 71/2019.

The Agreement shall not be binding and has been concluded only to exclusively in order to confirm the intentions of the Parties as regards its subject matter.

In addition, according to the Agreement on Common Terms, COMSA shall have the right to acquire bonds convertible to the Company's shares up to the PLN 15,000,000 on the same terms as those described for the bonds that can be acquired by ARP, provided that the bonds that can be acquired by COMSA shall be unsecured and subordinate to any other liabilities of the Company.

Simultaneously, on September 27, 2019, the Extraordinary Meeting of Shareholders adopted resolution no. 5 on an increase in the Company's share capital through the issue of B series ordinary bearer shares and C series ordinary registered shares under private placement, excluding the pre-emptive rights of the existing shareholders, dematerialisation and application for authorisation for admission to trading on a regulated market by Giełda Papierów Wartościowych w Warszawie S.A. Rights to subscribe the series B shares, series B shares, series C shares and changes to the Company's articles of association.

On October 4 to 7, 2019 the Company completed an initial public offering of 10,279,909 series B ordinary bearer shares with a nominal value of PLN 0.80 and no less than 13,014,209 and no more than 25,014,209 series C ordinary registered shares of the Company with a nominal value of PLN 0.80, under a private subscription within the meaning of Article 431 para. 2 pt. 1 of the Commercial Companies Code, excluding any pre-emptive rights of the Company's existing shareholders, addressed to no more than 149 selected investors.

On October 10, 2019 the Company and investors concluded agreements for the acquisition of 10,279,909 series B shares and 24,771,519 series C shares of the Company. The price for each share of series B and for each share of series C was PLN 1.70. The total price for the shares of series B and series C was PLN 59,587,427.6, of which (i) 12,242,952 of series C shares were acquired by the Company's existing shareholder, namely by COMSA S.A.U. ("Comsa") and paid for by way of deducting the liabilities of COMSA towards the Company in the total amount of PLN 20,813,018.40, of which the Company notified in Current Reports 53/2019 and 58/2019; (ii) the remaining 22,808,476 shares of series B and C were acquired by other investors by cash in the total amount of PLN 38,774,409.20.

On November 6, 2019, the series B ordinary bearer shares were entered in KDPW.

The Company received the cash contributions made by investors for the acquisition of shares series B and C.

On January 14, 2020 the Extraordinary General Meeting of Shareholders was held, at which the resolutions were adopted, in particular, on the issue of series F and G bonds convertible to series D shares and on the exclusion of the entirety of pre-emptive rights of the existing shareholders, in relation to series F and G bonds convertible to shares and on an conditional increase in the Company's share capital by way of emitting shares series D, and on the exclusion of the entirety of pre-emptive rights of the existing shareholders to series D shares and on the changes in the articles of association. Draft resolutions were published by the Company in Current Report 2/2020. The value of issue is PLN 27,674,487, including new funds acquired by the Company in the amount of PLN 20,000,000, the issue shall enter into force in the second quarter of 2020.

The aforementioned events have been detailed by the Company in the following current reports: 46/2019, 47/2019, 48/2019, 51/2019, 53/2019, 54/2019, 55/2019, 58/2019, 59/2019, 61/2019, 63/2019, 64/2019, 65/2019, 66/2019, 71/2019, 73/2019, 79/2019, 81/2019, 82/2019, 83/2019, 84/2019, 2/2020.

Other actions:

a) New contracts

The parent company consequently develops competences in various sectors of the infrastructural construction sectors with a focus on the railway industry. The Parent Company continues to actively participate in tender procedures on the railway market and to a lesser degree on the road market. The railway sector experiences a significant increase in the tenders offered. The current market trend demonstrates that offers of contractors which exceed investor budgets are often accepted by contracting parties.

In the recent weeks, the Company concluded the following contracts:

a) on February 24, "Renovation of power substation at the A3 Imielin station of the Warsaw first underground line" (the net value of the Company's share: PLN 2.4 million);

b) on April 2, "Modernisation of the 110/15/6 kV Śródmieście station in Łódź" (the net value of the Company's share: PLN 18.9 million).

After the balance sheet date, the Company has submitted the most attractive tender in the following tender procedures:

a) "Bolesław Chrobry Bridges in Wrocław" (the net value of the Company's share: PLN 58.4 million) – the Company has been selected as the contractor; the Management Board waits for the official invitation to sign the contract;

c) "Expansion of road no. 224 in the section Godziszewo – A1 Stanisławie highway junction, stage 1 Godziszewo" (the net value of the Company's share: PLN 10.2 million) – the Company's tender was rejected, the Company waits for the appeal date at Krajowa Izba Odwoławcza [Polish Public Procurement Office].

b) Received substantial advance payments

In connection with Note 5 of the Notes to the abbreviated separate financial statements that form part of the consolidated quarterly report of Trakcja Group for the 9-month period ended September 30, 2019, the Company's Management Board informs that substantial advance payments were received under the following contracts:

- "Reconstruction of track systems and accompanying infrastructure at the E59 railway line, Stargard – Szczecin Dąbie section, under the project entitled "Works at the E59 railway line, Poznań Główny – Szczecin Dąbie section" - PLN 11,165 thousand (so far the Company had received PLN 25,000 thousand) – we have received the advance payment in the full amount,

"Renewal of railway lines no. 694/157/190/191 Bronów – Bieniowiec – Skoczów – Goleszów – Cieszyn/Wisła Głębce" – PLN 12,886 thousand.

Actions taken by the Company after the balance sheet date

1. The Company waits for advance payments to be made under the contract mentioned below, which is at the moment processed with the Contracting Party and the Guarantors:
   - "Redevelopment of track systems and accompanying infrastructure at the E59 railway line, Choszczno - Stargard section, within the scope of the project entitled "Works at the E59 railway line, Choszczno – Stargard section (Company's share - PLN 24.498 million);

2. With regard to the signing of the long-term financing documentation, the Company has also undertaken to meet a series of conditions, which include, in particular, the registration of collateral documents, the establishment of additional collateral and the implementation of a recovery plan. According to the recovery plan, in 2019-2020 the Company shall take various actions aimed, in particular, at obtaining financial benefits, improving internal procedures and optimising internal structures. In addition, in accordance with the financial documentation, the Company shall provide mBank S.A. (loan agent) with the management board's report on the implementation of the recovery plan which is also verified by a financial advisor. The report shall be provided at least once a month.

3. The Company is in the process of selling non-operational assets. The Company is planning to sell further non-operational assets including the property at ul. Oliwska in Warsaw, for PLN 17,500 thousand. The Company expects a prepayment on the sale of the property at ulica Oliwska in Warsaw. The prepayment shall be PLN 3.5 million, which is 20% of the expected selling price. The completion of the transaction was deferred at the request of the contracting party due to reasons related to the ongoing COVID-19 pandemic. The Company expects to finalise the transaction in 2020.

4. The Company waits to finalise the sales transaction concerning the **property located at ul. Lotnicza 100 in Wrocław, which in keeping with the applicable agreement shall be completed by the end of the second quarter 2020**, however, the Management Board of the Parent Company takes into account the fact that it may be deferred in time due to the SARS CoV-2 pandemic. The aforementioned transaction has been described in detail in Note 14 (other operating revenues).

5. On January 14, 2020 the General Meeting of Shareholders was held which approved the issue of series F and G bonds convertible to series D shares and the exclusion of the entire pre-emptive right of the existing shareholders in relation to series F and G bonds convertible to shares. The details have been described in Current Report 2/2020.

6. The Parent Company was granted a loan by BTW Sp. z o.o. in the amount of PLN 11 million.

7. In accordance with the provisions of the long-term financing agreements, the Company and the financial advisor (Ipopema Financial Advisory Sp. z o.o.) accepted by financial institutions, updated the financial model for the activities of Trakcja Group in the period 2020-2023. As a result of the update, a financial gap was identified at the Parent Company in the amount of PLN 89 million, **which is assumed to be covered by financial instruments.** The Management Board believes that the financial gap should be covered by additional funds and proceeds from payments made the contracting parties.

According to the Company's Management Board, conducted analyses and undertaken measures satisfactorily neutralize the risk to liquidity. In the Company's opinion, conducted actions will allow to financially secure the business and will prepare the Company for execution of projects on a larger scale.

Risk of failure of steps taken

The Company's Management Board prepared the financial statements on the basis of the assumption that the Company will remain a going concern at least in a 12-month period following the approval hereof for publication. The Group's going concern depends on the effective coverage of the financial gap. Any failure in expected effects of undertaken activities in the scope of additional financing and negotiation of payments may lead to a threat to the going concern of the Parent Company. In addition, the liquidity may deteriorate due to such factors as: deferral of due dates for the acquisition of funds from advance payments, bonds and negative events resulting from the Covid-19 pandemic, as described at the end hereof.

Taking into account any potential negative or unforeseeable consequences of the events described herein, and also any potential deferral of actions that provide for the appropriate financing for the Company's activities, the Company may take the following additional measures:

1. Launching negotiations with the Company's creditors regarding the restructuring of debt together with the simultaneous implementation of measures permitted by the applicable laws to protect the Company and the interests of creditors and shareholders.
2. Carrying out operational restructuring consisting in the disposal of assets not used in the Company's operating activities, including shares in subsidiaries or property, plant and equipment.
3. Limitation of the Company's scope of operations.

Impact of the SARS CoV-2 (COVID-19) pandemic on the activities and financial condition of the Group

The rapid spread of the SARS CoV-2 virus in Poland and on other markets, on which the Company and its subsidiaries carry out its business activities may have an impact on the Company's financial performance in 2020. As at the date hereof, the Management Board expects that the actual pandemic state in Poland which results, in particular, in:

- Transport being limited and delivery of components and raw materials being irregular,
- Availability and efficiency of subcontractors being reduced,
- Administrative decisions on the construction contracts implemented being delayed,
- The progress in works experiencing a slowdown due to the introduction of emergency measures in accordance with the guidelines issued by the Ministry of Health and the Chief Sanitary Inspector, and due to the increased absence of employees,
- Costs of certain services, in particular, transport of materials and raw materials, being increased,

  The completion by the Group of contracts, under which the Group companies act as contractors or subcontractors, may be delayed and as a consequence translate into a risk that the contracting parties may file claims for contractual penalties to be paid by the Group companies for untimely completion of contracts. The aforementioned factor may also result in an extraordinary increase in prices for materials and services being experienced, which in turn shall result in the profitability of contracts being reduced. Furthermore, the COVID-19 pandemic may contribute to a decrease in the number of infrastructural investment projects being scheduled for the following years.

Despite the fact that as at the date hereof both the business entities and financial institutions continue their operations, the further spread of the SARS CoV-2 virus may result in the Company's business partners, courts and financial institutions being forced to adapt their operations to the circumstances pending, which may cause delays in obtaining financial funds necessary for the Company to:

- fulfil its financial obligations,
- acquire new contracts, if the Company has no required financial security such as guarantees or deposits,
- meet its obligations under the long-term financing documentation (of which the Company notified in Current Report no. 51/2019 of September 27, 2019) that forms part of the financial restructuring process of the Group.

Measures taken by the Company's Management Board

On April 6, 2020 the Management Board and trade unions concluded an agreement under which the working hours of employees were reduced by 10%, and as a result the salaries paid according to a monthly wage rate were decreased accordingly. The aforementioned reduction in the working hours applies mainly to white-collar employees and at the same time allows for the contract performance potential to be maintained. The agreement remains valid until June 30, 2020.

The aforementioned 10%-decrease applies also to remuneration of the management board members, supervisory board members, and also self-employed and service providers who collaborate with the Company.

In addition, it has been decided that payment of any bonuses, awards, allowances and severance pays is suspended and that overtime and use of company cars are to be reduced. The contribution to the company social benefits fund is also to be reduced by 25%.

The Company estimates that the aforementioned measures will allow it to achieve monthly savings of approximately PLN 1.8 million.

Due to the fact that as at the date hereof the precise and final impact of the SARS CoV-2 pandemic on the Group's situation has not yet been identified, the Company's Management Board monitors on an ongoing basis the developments and analyses the potential impact of the pandemic on the operations, performance and perspectives of both the Company and the Group, including a necessary change in the measurement of contracts and the Group's liquidity ratio.

Warsaw, 21 April 2020

Marcin Lewandowski
President of the Management Board

Paweł Nogalski
Vice-President of the Management Board

Arkadiusz Arciszewski
Vice-President of the Management Board

Aldas Rusevičius
Vice-President of the Management Board

Robert Sobków
Member of the Management Board

Adam Stolarz
Member of the Management Board

STATEMENT OF THE SUPERVISORY BOARD OF TRAKCJA PRKII S.A. PREPARED ON THE BASIS OF § 70 SECTION 1 POINT 8 AND § 71 SECTION 1 POINT 8 OF THE REGULATION OF THE MINISTER OF FINANCE ON CURRENT AND PERIODIC INFORMATION TO BE PUBLISHED BY ISSUERS OF SECURITIES AND CONDITIONS FOR RECOGNISING AS EQUIVALENT INFORMATION REQUIRED UNDER THE LAWS OF A NON-MEMBER STATE.

STATEMENT ON THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD OF TRAKCJA PRKiI S.A.

The Supervisory Board declares that:

1. in the Company the rules regarding the appointment, composition and functioning of the Audit Committee are respected, including the fulfilment by its members of independence criteria and requirements regarding knowledge and skills in the industry in which Company operates, and in the field of accounting or audit statements,
2. appointed Audit Committee in Company performed the tasks delegated to it for in the applicable regulations.

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Dominik Radziwiłł
Chairman of the Supervisory Board

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Jorge Miarnau Montserrat
Vice-Chairman of the Supervisory Board

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Michał Hulbój
Vice-Chairman of the Supervisory Board

……………………………………..

Klaudia Budzisz
Member of the Supervisory Board

……………………………………..

Krzysztof Tenerowicz
Member of the Supervisory Board

……………………………………..

Miquel Llevat Vallespinosa
Member of the Supervisory Board

……………………………………..

Fernando Perea Samarra
Member of the Supervisory Board

Statement based on the Resolution of the Supervisory Board of Trakcja PRKiI S.A. from April 21, 2020

ASSESSMENT OF THE SUPERVISORY BOARD OF TRAKCJA PRKII S.A. CONCERNING THE REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES OF TRAKCJA PRKII S.A. AND OF TRAKCJA GORUP IN 2019, THE ANNUAL STANDALONE FINANCIAL STATEMENT OF TRAKCJA PRKII S.A. FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019 AND THE ANNUAL CONSOLIDATED FINANCIAL STATEMENT OF TRAKCJA GROUP FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

I. SUBJECT MATTER OF THE ASSESSMENT

The subject matter of this assessment includes:

1. The Report of the Management Board on the activities of Trakcja Group and Trakcja PRKiI S.A. in 2019.
2. Annual standalone financial statement of Trakcja PRKiI S.A. for the period from 1 January 2019 to 31 December 2019 prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at 31 December 2019.
3. Annual consolidated financial statement of Trakcja Group for the period from 1 January 2019 to 31 December 2019 prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at 31 December 2019.

II. ASSESSMENT OF THE MANAGEMENT BOARD'S REPORT AND FINANCIAL STATEMENTS

1. Assessment of the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKiI S.A. in 2019:
   The Supervisory Board of Trakcja PRKiI S.A. assessed the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKiI S.A. in 2019 and reviewed the results of the audit presented by an auditor of Trakcja PRKiI S.A. (BDO spółka z ograniczoną odpowiedzialnością Sp. k.), the auditor report and based on information and materials received from the Auditor, the Management Board and representatives of the Company, concluded that the report:
   - has been prepared in accordance with Article 49 of the Act of 29 September 1994 on Accounting (Journal of Laws of 2019, item 351) and § 70 and § 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognized as equivalent;
   - is consistent with the information contained in the annual standalone financial statement of Trakcja PRKiI S.A. for the period from 1 January 2019 to 1 December 2019 and annual consolidated financial statement of Trakcja Group for the period from 1 January 2019 to 31 December 2019.

   The Supervisory Board of Trakcja PRKiI S.A. on the basis of information and materials received from the Auditor, the Management Board and the Company's representatives concludes that the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKiI S.A. in 2019 is consistent with the information contained in the annual standalone and annual consolidated financial statements and with all knowledge about Trakcja Group and Trakcja PRKiI S.A. and their surroundings obtained during an audit of annual standalone and consolidated financial statements, contains a description of all material events that may have an influence on financial position of Trakcja Group and Trakcja PRKiI S.A. and performance over the upcoming quarters as well as a description of all material risks.

   Further to the foregoing, the Supervisory Board of Trakcja PRKiI S.A. expresses a positive assessment of the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKiI S.A. in 2019.

2. Assessment of the annual standalone financial statement of Trakcja PRKiI S.A. for the period from 1 January 2019 to 31 December 2019

   The Supervisory Board of Trakcja PRKiI S.A. assessed the annual standalone financial statement of Trakcja PRKiI S.A. for the period from 1 January 2019 to 31 December 2019 comprised of:

a) standalone income statement for the period from 1 January 2019 to 31 December 2019 showing a net loss of PLN 249 678 thousand,
b) standalone statement of comprehensive income for the period from 1 January 2019 to 31 December 2019 showing a negative value of comprehensive income of PLN 248 401 thousand,
c) standalone balance sheet as at 31 December 2019 showing assets and liabilities in the total amount of PLN 1 228 461 thousand,
d) standalone statement of cash flows for the period from 1 January 2019 to 31 December 2019 showing decrease in net cash by PLN 13 937 thousand,
e) standalone statement of changes in equity for the period from 1 January 2019 to 31 December 2019 showing decrease in equity by PLN 189 780 thousand,
f) additional information and explanations,

and reviewed the results of audit presented by an auditor of Trakcja PRKiI S.A. (BDO Spółka z ograniczoną odpowiedzialnością sp. k.).

The Supervisory Board of Trakcja PRKiI S.A. on the basis of information and materials received from the Auditor, the Management Board and the Company's representatives concludes that the annual standalone financial statement of Trakcja PRKiI S.A. for the period from 1 January 2019 to 31 December 2019 presents the financial position of Trakcja PRKiI S.A. as at 31 December 2019 and financial result and cash flows of Trakcja PRKiI S.A. for the period from 1 January 2019 to 31 December 2019 fairly and clearly and was prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at 31 December 2019 and is consistent with books and records as well as facts.

Further to the foregoing, the Supervisory Board of Trakcja PRKiI S.A. subjected to note 10 of additional informational to Financial Statements [Risk of continuing (business) activity and taken and planned actions of the Management] assessed an annual standalone financial statement of Trakcja PRKiI S.A. for the period from 1 January 2019 to 31 December 2019.

3. Assessment of the annual consolidated financial statement of Trakcja Group for the period from 1 January 2019 to 31 December 2019

The Supervisory Board of Trakcja PRKiI S.A. assessed the annual consolidated financial statement of Trakcja Group for the period from 1 January 2019 to 31 December 2019 comprised of:
a) consolidated income statement for the period from 1 January 2019 to 31 December 2019 showing a net loss of PLN 285 048 thousand,
b) consolidated statement of comprehensive income for the period from 1 January 2019 to 31 December 2019 showing a negative value of comprehensive income of PLN 287 028 thousand,
c) consolidated balance sheet as at 31 December 2019 showing assets and liabilities in the total amount of PLN 1 484 320 thousand,
d) consolidated statement of cash flows for the period from 1 January 2019 to 31 December 2019 showing decrease in net cash by PLN 9 214 thousand,
e) consolidated statement of changes in equity for the period from 1 January 2019 to 31 December 2019 showing decrease in equity by PLN 228 896 thousand,
f) additional information and explanations,
and reviewed the results of audit presented by an auditor of Trakcja Group (BDO Spółka z ograniczoną odpowiedzialnością sp. k.).
The Supervisory Board of Trakcja PRKiI S.A. on the basis of information and materials received from the Auditor, the Management Board and the Company's representatives concludes that the annual consolidated financial statement of Trakcja Group for the period from 1 January 2019 to 31 December 2019 presents the financial position of Trakcja Group as at 31 December 2019 and financial result and cash flows of Trakcja Group for the period from 1 January 2019 to 31 December 2019 fairly and clearly and was prepared in

accordance with International Financial Reporting Standards approved by the European Union and applicable as at 31 December 2019 and is consistent with books and records as well as facts.
Further to the foregoing, the Supervisory Board of Trakcja PRKiI S.A. subjected to note 62 of additional informational to Financial Statements [Risk of continuing (business) activity and taken and planned actions of the Management] assessed of an annual consolidated financial statement of Trakcja Group for the period from 1 January 2019 to 31 December 2019.

Pursuant to Article 382 § 3 of the Code Commercial Companies, the Supervisory Board subjected to notes 10 and 62 of additional informational to Financial Statements [Risk of continuing (business) activity and taken and planned actions of the Management] assessed the report on the activities of the Trakcja Capital Group for 2019, the report on the activities of the Company for 2019, the annual standalone financial statement of the Company for 2019 and the annual consolidated financial statement of the Trakcja Capital Group for 2019 and requests the Annual General Meeting of Shareholders to approve these reports.

…………………………………………	…………………………………………
Dominik Radziwiłł Chairman of the Supervisory Board	Jorge Miarnau Montserrat Vice-Chairman of the Supervisory Board
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Michał Hulbój Vice-Chairman of the Supervisory Board	Klaudia Budzisz Member of the Supervisory Board
………………………………………..	………………………………………..
Krzysztof Tenerowicz Member of the Supervisory Board	Miquel Llevat Vallespinosa Member of the Supervisory Board
………………………………………..	
Fernando Perea Samarra Member of the Supervisory Board	

BDO spółka z ograniczoną odpowiedzialnością sp.k.
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This document is a translation.
The Polish original should be referred to in matters of interpretation.

Independent Auditor's Report
to the General Meeting and Supervisory Board of Trakcja PRKiI S.A.

Report on the Audit of the Year-end Consolidated Financial Statements

Opinion

We have audited the year-end consolidated financial statements of the group, where the parent company is Trakcja PRKiI S.A. ("the Parent Company") ("the Group"), which comprise the consolidated balance sheet as at 31 December 2019, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as notes to the consolidated financial statements ("the consolidated financial statements").

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the Group's financial position as at 31 December 2019, as well as of its consolidated financial result and consolidated cash flows for the year then ended, in accordance with the applicable International Financial Reporting Standards endorsed by the European Union, as well as the adopted accounting methods (policies);
- are consistent, in content and in form, with the applicable laws and regulations and with the Parent Company's Statute.

The present opinion is consistent with the additional report to the Audit Committee, which we issued on 21 April 2020.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing adopted by the National Council of Certified Auditors as National Standards on Auditing ("NSA") and in compliance with the Act on Certified Auditors, Audit Firms and on Public Supervision ("the Certified Auditors Act" – 2019 Journal of Laws, item 1421 with subsequent amendments) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public interest entities ("Regulation EU" – OJ L 158). Our responsibilities under those standards are further described in the *Responsibilities of the Auditor for the Audit of the Consolidated Financial Statements* section of this report.

We are independent of the Group's companies in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("the IFAC Code") and adopted by resolutions of the National Chamber of Certified Auditors, and with other ethical requirements relevant to the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC Code. During the audit, the engagement partner and the audit firm remained independent of the Parent Company in accordance with the independence requirements laid down in the Certified Auditors Act and Regulation EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Significant Uncertainty Relating to Going Concern

We draw your attention to Note 62 "Risk to the Parent Company's going concern and actions undertaken and planned by Management" to the consolidated financial statements, which contains a description of the risk to the going concern of the Parent Company and the Trakcja PKIKil Group.

The note indicates that in the financial year ended 31 December 2019 the Parent Company incurred a net loss of PLN 249.678 thousand, its negative working capital as at 31 December 2019 amounted to PLN 59.406 thousand, whilst its outstanding liabilities amounted to PLN 87.200 thousand. The Parent Company's Management prepared its financial statements on a going concern basis. The Company's and Group's ability to continue as a going concern depends on covering the financial gap by obtaining additional debt financing and on the effectiveness of the process of negotiations with customers for the payment of fees that are the subject of the Parent Company's claims. Failure to achieve the anticipated effects of these actions could threaten the Parent Company's and the Group's ability to continue as a going concern. In addition, in the above-referenced note the Parent Company pointed out other factors that may worsen its liquidity: postponement of the dates of obtaining funds from advances on ongoing contracts and bond issues, as well as the negative effects of the COVID-19 pandemic. As indicated in Note 62, the above indications along with other information described in the note point to the existence of significant uncertainty, which may give rise to serious doubts as to the Parent Company's and the Group's ability to continue as a going concern.

Our opinion has not been modified with regard to this matter.

Other Matters

The Group's financial statements for the financial year ended 31 December 2018 have been audited by an engagement partner acting on behalf of another audit firm, who expressed an unmodified opinion on the financial statements on 30 April 2019.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in the audit of the consolidated financial statements for the current reporting period. They include the most significant assessed types of risks of material misstatements, including assessed types of risks of material misstatements resulting from fraud. We addressed these matters in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and have summarized our response to these types of risks, and where relevant, presented our key observations relating to those risks. We do not express a separate opinion on these matters. In addition to the matter described in the *Significant Uncertainty Relating to Going Concern* section, we found the following to be key audit matters, of which we inform in our report.

1	Impairment analysis of goodwill

The Parent Company holds significant investments in subsidiaries operating on the Polish and Lithuanian construction market. Their acquisition in prior years resulted in the recognition of goodwill listed in the consolidated financial statements as at 31 December 2019 in the amount of PLN 168.983 thousand. The goodwill is subject to annual impairment tests.

Due to the materiality of the item, and also because of the complexity of the matter and sensitivity of the impairment test to the adopted assumptions, the matter of test performance was the subject of our analyses. As a key audit risk we found that the risk consists of the Parent Company Management's judgements and estimates associated with assumptions as to future cash flows, determination of the discount rate, estimation of residual values contained in the discounted cash flows model used to recognize the impairment.

As indicated above, as a result of the test, in the financial year ended 31 December 2019 the Parent Company's Management recognized an impairment of goodwill in the Group's consolidated financial statements in the amount of PLN 138.182 thousand.

In view of the above we classified this matter as a key audit matter.

Disclosures in the financial statements

Note 9.8.2 to the consolidated financial statements presents the accounting methods used by the Parent Company to measure goodwill.

Note 24 to the consolidated financial statements contains disclosures on the performance of the impairment test, including test results, description of test assumptions and a sensitivity analysis of test results to changes in key assumptions.

Audit procedures performed in response to the risk

Our audit procedures included in particular:

- understanding and assessing the process of identifying indications of impairment of goodwill and the accuracy of the method used to perform the test in accordance with the applicable financial reporting standards,
- performing a critical assessment of the assumptions and estimates applied by the Parent Company's Management to calculate the recoverable amount of goodwill, including: comparing the adopted assumptions relating to future cash flows with the budgets and medium term plans and assessing the validity of such plans, assessing the assumptions and estimates made to determine the recoverable amount of goodwill, including the validity of the cash generating unit and the method of performing the write down in accordance with the requirements of IAS 36, analyzing the validity of key macro-economic assumptions, assessing the methods used to determine residual values after the period covered by the medium term plans and consistency of test methodology with international financial reporting standards,
- analyzing the method used to calculate discount rates,
- assessing the Management's analysis of the impairment test's sensitivity to the adopted key assumptions,
- evaluating the accuracy and completeness of disclosures in the Group's consolidated financial statements.

2 Accounting for construction contracts

In 2019 the Group generated PLN 1.399.724 thousand in revenue from construction contracts, which led to the recognition in the consolidated financial statements as at 31 December 2019 of an asset resulting from the excess of revenue recognized over invoiced in the amount of PLN 197.200 thousand.

The Group recognizes revenue from the performance of contracts using the methods defined in International Financial Reporting Standard 15 Revenue from Contracts with Customers ("IFRS 15"). In accordance with the requirements of the standard, revenue is recognized according to the stage of completion, if the following criteria are met: no asset is being created with alternative use to the Group and the Group has an enforceable right to receive payment for the performance completed to date. The value of disclosed revenue recognized in a given year depends to a great extent on the costs that were actually incurred, the setting of an appropriate margin and the stage of contract completion, as well as on the accuracy and completeness of contract budgets.

The Management's key judgement on the recognition of revenue from the performance of construction contracts relate to the accuracy and completeness of contract budgets and to their effect on the recognition of revenue in the context of IFRS 15 requirements.

The risk associated with the recognition of all risks in contract budgets remains a key factor in the Group's operations and has a significant effect on the accuracy of construction contract accounting. In addition, the accuracy of accounting for construction contracts is to a great extend conditioned on the measurement and nature of changes in the scope of work.

Due to the size of the projects, their complexity, uncertainty as to the total final costs of their performance, the results of talks with customers and scope of work changes, they require significant subjective judgements on the part of the Parent Company's Management.

In view of the above we classified this matter as a key audit matter.

Disclosures in the financial statements

Note 9.21 to the consolidated financial statements presents the accounting methods used to account for contracts with customers, including to recognize revenue from the performance of construction contracts.

Note 13 to the consolidated financial statements contains disclosures on revenue recognized from the performance of construction contracts, and Note 33 – on the balance of contract customer accounts.

Audit procedures performed in response to the risk

Our audit procedures to assess the accuracy of accounting for construction contracts included:

- obtaining an understanding of and assessing the design and implementation of the existing key controls relating to accounting for construction contracts,
- obtaining an understanding of the accounting methods used to account for consortium contracts,
- analyzing the accuracy of the model used to account for construction contracts, including: verifying the mathematical accuracy of contract accounting and recognition in the books of account, analyzing contract portfolio to identify significant and risk-sensitive contracts included in a sample selected for further detailed procedures,
- for selected contracts: discussing their performance status with contract directors and if need be with the Parent Company's Management, and performing an analysis of budget changes made in the course of the audited period along with agreeing the revenue and costs forecast in the budget with source documents,
- analyzing letters from the Group's legal advisor insofar as the contract budgets contained variable components of consideration,
- analyzing contract budgets for completeness of estimated cost recognition,
- evaluating the accuracy and completeness of disclosures in the Group's consolidated financial statements.

Responsibilities of the Parent Company's Management and Supervisory Board for the Consolidated Financial Statements

The Parent Company's Management is responsible for the preparation of the consolidated financial statements that give a true and fair view of the Group's financial position and financial result in accordance with International Financial Reporting Standards endorsed by the European Union, the adopted accounting methods (policies), the applicable binding regulations and the Statute. The Parent Company's Management is also responsible for such internal controls as it considers necessary to ensure that the consolidated financial statements are free from material misstatements resulting from fraud or error.

In preparing the consolidated financial statements the Parent Company's Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, any matters related to going concern and using the going concern basis of accounting, except in situations where the Management intends to either liquidate the Group or discontinue its operations, or has no realistic alternative but to do so.

The Parent Company's Management and members of the Parent Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – 2019 Journal of Laws, item 351 with subsequent amendments). Members of the Parent Company's Supervisory Board are responsible for overseeing the financial reporting process.

Responsibilities of the Auditor for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with NSA will always detect an existing material misstatement. Misstatements can arise from fraud or error and are considered material if it could be reasonably expected that they, individually or in the aggregate, could influence the economic decisions of users made on the basis of these consolidated financial statements.

The concept of materiality is applied by the auditor at the planning stage and when performing the audit and evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements, as well as when formulating the auditor's opinion. In view of the above, all of the opinions and statements contained in the auditor's report are expressed subject to the qualitative and quantitative level of materiality set in accordance with the applicable standards on auditing and the auditor's professional judgement.

The scope of the audit does not include an assurance regarding the Group's future profitability, or regarding the effectiveness of the Parent Company's Management in the handling of the Group's affairs now or in the future.

Throughout an audit in accordance with NSA, we exercise professional judgement and maintain professional skepticism, as well as:

- identify and assess the risks of a material misstatement of the consolidated financial statements resulting from fraud or error, design and perform audit procedures in response to such risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, because fraud may involve collusion, forgery, deliberate omission, misrepresentation or override of internal controls;
- obtain an understanding of the internal controls relevant to the audit in order to plan our audit procedures, but not to express an opinion on the effectiveness of the Group's internal controls;
- evaluate the appropriateness of the accounting policies used and the reasonableness of the estimates and related disclosures made by the Parent Company's Management;
- conclude on the appropriateness of the Parent Company Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and contents of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit and remain solely responsible for our audit opinion.

We provide the Parent Company's Supervisory Board with information about, among others, the planned scope and timing of the audit and significant audit findings, including any significant weaknesses of internal controls that we identify during our audit.

We provide the Parent Company's Supervisory Board with a statement that we have complied with the relevant ethical requirements relating to independence, and that we will communicate to them all relationships and other matters that may reasonably be considered to constitute a threat to our independence, and where applicable, inform them of the related safety measures.

From the matters communicated to the Parent Company's Supervisory Board we determined those matters that were of the most significance to the audit of the consolidated financial statements for the current reporting period and were therefore chosen as key audit matters. We describe these matters in our auditor's report, unless law or regulations prohibit their public disclosure or when, in exceptional cases, we find that a given matter should not be presented in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such information.

Other Information, Including Report on Activities

Other information comprises the report on the activities of the Group for the financial year ended 31 December 2019 "Report on Activities") along with the Statement of Compliance with Rules of Corporate Governance and the Statement on Non-financial Information referred to in Article 49b par. 1 of the Accounting Act, which constitute separate sections of that Report, as well as the Annual Report for the financial year ended 31 December 2019 ("Annual Report") (together "Other Information"). Based on the regulations of Article 55 par. 2a of the Accounting Act and par. 71 point 8 of the Minister's of Finance Decree of 29 March 2019 on the current and periodic information reported by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2018 Journal of Laws, item 757 with subsequent amendments), in the Report on Activities the Parent Company's Management included information on the Parent Company.

Responsibilities of the Parent Company's Management and Supervisory Board

The Parent Company's Management is responsible for the preparation of Other Information in accordance with binding regulations.

The Parent Company's Management and members of its Supervisory Board are required to ensure that the Report on Activities along with its separate sections meets the requirements of the Accounting Act.

Responsibilities of the Auditor

Our opinion on the consolidated financial statements does not cover Other Information. In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we find a material misstatement of Other Information, we are required to state this fact in our auditor's report. In accordance with the requirements of the Certified Auditors Act, it is also our responsibility to issue an opinion whether the Report on Activities has been prepared in accordance with binding regulations, and whether it is consistent with the information presented in the consolidated financial statements. We are also required to report if the Parent Company has prepared a Statement on Non-financial Information and to issue an opinion whether the Statement of Compliance with Rules of Corporate Governance contains the required information.

We received the Report on Activities prior to the issue of the present auditor's report, whereas the Annual Report will be available after this date. In the event that we find a material misstatement in the Annual Report, we are required to communicate this to the Parent Company's Supervisory Board.

Opinion on the Report on Activities

Based on the work we have performed during the audit, in our opinion the Report on Activities:

- has been prepared in accordance with Article 49 of the Accounting Act and par. 71 of the Minister's of Finance Decree of 29 March 2018 on the current and periodic information reported by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state;
- is consistent with the information presented in the consolidated financial statements.

Furthermore, based on our knowledge obtained during the audit about the Group and its environment we have identified no material misstatements in the Report on Activities.

Opinion on the Statement of Compliance with Rules of Corporate Governance

In our opinion, the Group's Statement of Compliance with Rules of Corporate Governance contains all of the information specified in paragraph 70 section 6 par. 5 of the Current Information Decree. In addition, in our opinion, the information indicated in paragraph 70 section 6 point 5 letters c-f, h and letter i of the Decree, contained in the Statement of Compliance with Rules of Corporate Governance is consistent with the applicable regulations and with the information contained in the consolidated financial statements.

Report on Non-financial Information

In accordance with the requirements of the Certified Auditors Act we confirm that the Parent Company has prepared the Report on Non-financial Information referred to in Article 49b par. 1 of the Accounting Act as a separate section of the Report on Activities.

We have performed no assurance work on the Report on Non-financial Information and, accordingly, do not express any assurance thereon.

Report on Other Legal and Regulatory Requirements

Declaration on the Provision of Non-audit Services

To the best of our knowledge and belief we declare that any non-audit services we have provided to the Group were consistent with the law and the regulations binding in Poland, and that we have not provided any non-audit services prohibited by virtue of Article 5 par. 1 of Regulation EU and Article 136 of the of the Certified Auditors Act.

The non-audit services we have provided to the Parent Company and its subsidiaries in the audited period are listed in Note 5.12 to the Report on Activities.

Appointment of the Auditor

We were appointed as auditors of the Group's consolidated financial statements in a resolution passed by the Parent Company's Supervisory Board on 23 May 2019. We have audited the Group's financial statements for the first time.

The engagement partner on the audit resulting in this independent auditor's report is Krzysztof Maksymik.

BDO spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw

entered on the list of audit firms in number **3355**

represented by the engagement partner

Signed with qualified e-signature

on the Polish original

Krzysztof Maksymik
Certified Auditor No. 11380

Signed with qualified e-signature

on the Polish original

Dr. André Helin
Managing Partner of the General Partner
Certified Auditor No 90004

Warsaw, 22 April 2020