TRAKCJA
CAPITAL GROUP

CONSOLIDTED QUARTERLY REPORT

FOR THE 9-MONTH PERIOD ENDED SEPTEMBER 30, 2018

published in accordance with § 60 para. 1 point 1 of the Ordinance of the Minister of Finance of 29 March 2018 regarding current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757).

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

CONTENTS OF THE CONSOLIDATED QUARTERLY REPORT

APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of Trakcja PRKiI S.A. has approved the consolidated financial statements of Trakcja Capital Group for the period of 9 months ended September 30, 2017.

The condensed consolidated financial statements for the third quarter of 2018 were prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union for interim reporting purposes (IAS 34). Information included herein is presented in the following sequence:

1. Consolidated income statement for the period from January 1, 2018 to September 30, 2018, which shows a net loss of PLN **13,461** thousand.
2. Consolidated statement of comprehensive income for the period from January 1, 2018 to September 30, 2018, which shows the negative total comprehensive income of PLN **6,360** thousand.
3. Consolidated balance sheet as at September 30, 2018, which shows the total assets and total equity and liabilities of PLN **1,659,988** thousand.
4. Consolidated statement of cash flows for the period from January 1, 2018 to September 30, 2018, which shows a decrease in the total net cash flows by PLN **83 280** thousand.
5. Consolidated statement of changes in equity for the period from January 1, 2018 to September 30, 2018, which shows a decrease in equity by PLN **11,981** thousand.
6. Notes.

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

Marcin Lewandowski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Warsaw, November 15, 2018

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I. SELECTED FINANCIAL DATA OF TRAKCJA CAPITAL GROUP

The average PLN/EUR exchange rates in the period covered by the consolidated financial statements:

Period 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
30.09.2018	4,2535	4,1423	4,3978	4,2714
31.12.2017	4,2447	4,1709	4,4157	4,1709
30.09.2017	4,2566	4,1737	4,4157	4,3091

** The average of the exchange rates applicable on the last day of each month in the reporting period concerned.*

Key items of the consolidated income statement translated into the euro::

	9 month period ended 30.09.2018		9 month period ended 30.09.2017	
	TPLN	TEUR	TPLN	TEUR
Sales revenues	1 097 172	257 946	949 756	223 125
Cost of goods sold	(1 059 369)	(249 058)	(898 370)	(211 053)
Gross profit (loss) on sales	37 803	8 888	51 386	12 072
Operating profit (loss)	(7 184)	(1 689)	14 129	3 319
Gross profit (loss)	(13 745)	(3 231)	10 770	2 530
Net profit (loss) from continued operations	(13 461)	(3 165)	8 303	1 951
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	**(13 461)**	**(3 165)**	**8 303**	**1 951**

The consolidated income statement data was converted at the average exchange rate of the euro, calculated as the average of the exchange rates applicable on the last day of each month in a given reporting period, established by the National Bank of Poland for that day.

Key items of the consolidated statement of financial position translated into the euro::

	30.09.2018		31.12.2017	
	TPLN	TEUR	TPLN	TEUR
Non-current assets	766 733	179 504	731 454	175 371
Current assets	893 255	209 125	710 826	170 425
Total assets	**1 659 988**	**388 629**	**1 442 280**	**345 796**
Equity	750 053	175 599	762 034	182 703
Long-term liabilities	190 094	44 504	116 953	28 040
Short-term liabilities	719 841	168 526	563 293	135 053
Total equity and liabilities	**1 659 988**	**388 629**	**1 442 280**	**345 796**

The consolidated balance sheet data was converted at the exchange rate established by the National Bank of Poland on the last day of a given reporting period.

Key items of the consolidated statement of cash flows translated into the euro:

	9 month period ended 30.09.2018		9 month period ended 30.09.2017	
	TPLN	TEUR	TPLN	TEUR
Cash flows from operating activities	(192 988)	(45 372)	(10 450)	(2 455)
Cash flows from investment activities	(28 772)	(6 764)	(23 797)	(5 591)
Cash flows from financial activities	138 480	32 557	(37 794)	(8 879)
Total net cash flows	**(83 280)**	**(19 579)**	**(72 041)**	**(16 925)**

The data of the consolidated statement of cash flows was converted at the average exchange rate of the euro, calculated as the average of the exchange rates applicable on the last day of each month in a given reporting period, established by the National Bank of Poland for that day..

	30.09.2018		30.09.2017	
	TPLN	TEUR	TPLN	TEUR
Cash at start of period	112 172	26 894	146 360	33 083
Cash at end of period	**28 892**	**6 764**	**74 319**	**17 247**

Exchange rates adopted for the purpose of calculating the above data of the consolidated statement of cash flows were as follows:

- for the ”cash at end of period” – the exchange rate established by the National Bank of Poland on the last day of the reporting period concerned,

- for the "cash at start of period" – the exchange rate established by the National Bank of Poland on the last day of the reporting period preceding the reporting period concerned.

The EUR/PLN exchange rate on the last day of the reporting period ended December 31, 2016 was PLN 4.4240.

(Data in PLN thousand, unless indicated otherwise)

II. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	1.01.2018 - 30.09.2018	01.07.2018- 30.09.2018	1.01.2017 - 30.09.2017	01.07.2017- 30.09.2017
	Unaudited		*Unaudited*	
Continued operations				
Sales revenue	1 097 172	518 321	949 756	412 108
Cost of goods sold	(1 059 369)	(491 386)	(898 370)	(390 371)
Gross profit on sales	**37 803**	**26 935**	**51 386**	**21 737**
Cost of sales, marketing and distribution	(4 424)	(1 365)	(4 599)	(1 625)
General and administrative costs	(40 369)	(14 170)	(35 511)	(12 449)
Other operating revenues	2 213	528	4 371	802
Other operating costs	(2 407)	(945)	(1 518)	(455)
Operating profit	**(7 184)**	**10 983**	**14 129**	**8 010**
Financial revenues	3 173	959	4 098	2 133
Financial costs	(9 734)	(2 751)	(7 457)	(1 802)
Gross profit	**(13 745)**	**9 191**	**10 770**	**8 341**
Income tax	284	(2 049)	(2 467)	(1 127)
Net profit from continued operation	**(13 461)**	**7 142**	**8 303**	**7 214**
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	**(13 461)**	**7 142**	**8 303**	**7 214**
Attributable to:				
Shareholders of parent entity	(14 181)	6 508	8 014	7 097
Non-controlling interests	720	634	289	117

Profit per share attributable to shareholders in the period (PLN per share)

- basic	(0,28)	0,12	0,16	0,14
- diluted	(0,28)	0,12	0,16	0,14

(Data in PLN thousand, unless indicated otherwise)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1.01.2018 - 30.09.2018	01.07.2018- 30.09.2018	1.01.2017 - 30.09.2017	01.07.2017- 30.09.2017
	Unaudited		*Unaudited*	
Net profit for the period	**(13 461)**	**7 142**	**8 303**	**7 214**
Other comprehensive income:				
Other comprehensive income that will not be reclassified into profit or loss under certain conditions:	**38**	**(18)**	**(21)**	**(5)**
Actuarial gains/(losses)	38	(18)	(21)	(5)
Other comprehensive income that will be reclassified to profit or loss:	**7 063**	**(6 637)**	**(8 254)**	**5 847**
Foreign exchange differences on translation of foreign operations	6 546	(7 006)	(9 285)	5 674
Cash flow hedging instruments	517	369	1 031	173
Total other comprehensive income	**7 101**	**(6 655)**	**(8 275)**	**5 842**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**(6 360)**	**487**	**28**	**13 056**
Attributable to:				
Shareholders of Parent entity	(7 095)	(22)	(479)	12 854
Non-controlling interests	735	509	507	202

(Data in PLN thousand, unless indicated otherwise)

CONSOLIDATED BALANCE SHEET

	Nota	30.09.2018 *Unaudited*	31.12.2017 *Audited*
ASSETS			
Non-current assets		**766 733**	**731 454**
Tangible non-current assets		297 609	266 853
Intangible assets		52 742	53 753
Goodwill from consolidation		331 911	327 996
Investment properties		20 077	20 097
Investments in other units		25	858
Other financial assets		43 261	44 147
Deferred tax assets		10 606	9 836
Accruals		10 502	7 914
Current assets		**893 255**	**710 826**
Inventory		126 976	94 027
Trade and other receivables		428 585	324 094
Income tax receivables		4 393	9 642
Other financial assets		16 398	14 859
Cash and cash equivalents		28 904	112 184
Accruals		14 074	9 233
Construction contracts and advances paid towards contracts being performed		273 925	146 787
TOTAL ASSETS		**1 659 988**	**1 442 280**
Equity and liabilities			
Equity (attributable to shareholders of parent entity)		**741 449**	**756 979**
Share capital		41 120	41 120
Share premium account		309 984	309 984
Revaluation reserve		5 768	5 765
Other capital reserves		385 085	361 588
Retained earnings		(14 181)	31 429
Foreign exchange differences on translation of foreign operations		13 673	7 093
Non-controlling interests		**8 604**	**5 055**
Total equity		**750 053**	**762 034**
Long-term liabilities		**190 094**	**116 953**
Interest-bearing loans and borrowings		161 934	87 661
Provisions	23	11 261	11 917
Liabilities due to employee benefits		5 338	5 127
Provision for deferred tax		7 653	7 810
Derivative financial instruments		3 842	4 351
Other financial liabilities		66	87
Short-term liabilities		**719 841**	**563 293**
Interest-bearing loans and borrowings		116 982	28 538
Trade and other liabilities		450 833	335 049
Provisions	23	9 258	14 179
Liabilities due to employee benefits		15 996	12 762
Derivative financial instruments		983	960
Accruals		566	416
Construction contracts and advances received towards contracts being performed		122 871	171 347
Advances received towards flats		2 352	42
Total equity and liabilities		**1 659 988**	**1 442 280**

(Data in PLN thousand, unless indicated otherwise)

CONSOLIDATED STATEMENT OF CASH-FLOWS

	1.01.2018 - 30.09.2018 *Unaudited*	1.01.2017 - 30.09.2017 *Unaudited*
Cash flows from operating activities		
Gross profit from continued operations	**(13 745)**	**10 770**
Adjustments for:	**(179 243)**	**(21 220)**
Depreciation	23 214	22 009
FX differences	891	(549)
Net interest and dividends	5 898	4 306
Profit on investment activities	(2 726)	(3 105)
Change in receivables	(103 525)	69 029
Change in inventory	(32 667)	(40 968)
Change in liabilities, excluding loans and borrowings	117 573	(11 736)
Change in prepayments and accruals	(5 057)	(39 695)
Change in provisions	(5 756)	(26 911)
Change in construction contracts and advances towards contracts being performed	(176 106)	19 315
Change in financial derivatives	(619)	(1 191)
Income tax paid	(2 270)	(6 687)
Other	882	(973)
Foreign exchange differences on translation of foreign operations	1 025	(4 064)
Net cash flows from operating activities	**(192 988)**	**(10 450)**
Cash flows from investment activities		
Sale (purchase) of intangible assets and tangible non-current assets	(29 934)	(27 485)
- acquisition	(31 063)	(35 363)
- sale	1 129	7 878
Sale (purchase) of shares	(1 806)	(7)
- acquisition	(1 806)	(7)
Financial assets	2 724	3 795
- sold or repaid	7 808	7 859
- granted or acquired	(5 084)	(4 064)
Loans	-	(210)
- repaid	-	(210)
Interest received	244	110
Net cash flows from investment activities	**(28 772)**	**(23 797)**
Cash flows from financial activities		
Proceeds from payment to capital of a subsidiary from holders of non-controlling interest	2 161	-
Proceeds on account of taken borrowings and loans	161 475	14 538
Repayment of borrowings and loans	(12 006)	(12 163)
Interest paid	(6 216)	(5 221)
Payment of liabilities under financial lease agreements	(6 762)	(8 670)
Dividends paid to Parent Entity shareholders	-	(25 700)
Dividends paid to non-controlling shareholders	(220)	(382)
Other	48	(196)
Net cash flows from financial activities	**138 480**	**(37 794)**
Total net cash flows	**(83 280)**	**(72 041)**
Cash at start of period	**112 172**	**146 360**
Cash at end of period	**28 892**	**74 319**

** Cash excluded from the statement of cash flows comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.*

(Data in PLN thousand, unless indicated otherwise)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of parent entity										
	Share capital	Share premium account	Revalua-tion reserve	Other reserve capitals			Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interests	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	-	-	-	-	-	-	-	(14 181)	(14 181)	720	(13 461)
Other comprehensive income	-	-	-	471	35	-	6 580	-	7 086	15	7 101
Distribution of profit	-	-	-	-	-	26 289	-	(26 289)	-	-	-
Dividend payment	-	-	-	-	-	-	-	(5 140)	(5 140)	-	(5 140)
Payment of dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(220)	(220)
Acquisition of shares in a subsidiary	-	-	-	-	-	(625)	-	-	(625)	(1 194)	(1 819)
Beginning of subsidiary consolidation	-	-	-	-	-	-	-	-	-	4 098	4 098
Other changes	-	-	3	-	-	745	-	-	748	130	878
As at 30.09.2018 Unaudited	**41 120**	**309 984**	**5 768**	**(2 869)**	**(940)**	**388 894**	**13 673**	**(14 181)**	**741 449**	**8 604**	**750 053**
As at 1.01.2017 Audited	**41 120**	**309 984**	**5 765**	**(4 162)**	**(404)**	**337 225**	**26 924**	**54 685**	**771 137**	**4 830**	**775 967**
Net profit for the period	-	-	-	-	-	-	-	8 014	8 014	289	8 303
Other comprehensive income	-	-	-	759	(21)	-	(9 231)	-	(8 493)	218	(8 275)
Distribution of profit	-	-	-	-	-	28 985	-	(28 985)	-	-	-
Dividend payment	-	-	-	-	-	-	-	(25 700)	(25 700)	-	(25 700)
Payment of dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(556)	(556)
Other changes	-	-	-	-	-	(233)	-	-	(233)	(1)	(234)
As at 30.09.2017 Unaudited	**41 120**	**309 984**	**5 765**	**(3 403)**	**(425)**	**365 977**	**17 693**	**8 014**	**744 725**	**4 780**	**749 505**

(Data in PLN thousand, unless indicated otherwise)

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

III. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

These condensed consolidated financial statements of Trakcja Group cover the period of 9 months ended September 30, 2018.

Trakcja Capital Group ("Group" or "Trakcja Group") consists of the parent company, namely Trakcja PRKiI S.A. ("Trakcja PRKiI", "Parent Company" or "Company"), its subsidiaries (see Note 2).

Trakcja PRKiI S.A. 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 overtaking company with Przedsiębiorstwo Robót Komunikacyjnych-7 S.A. as the overtaken company. The merger was settled and recognised in the accounting books of the company to which the assets of the merged companies were transferred, i.e. Trakcja Polska S.A., under the pooling of interest method, as at August 31, 2009. The companies were effectively merged at the acquisition of control, i.e. on September 1, 2007, in accordance with IFRS 3.

On June 22, 2011 the District Court of the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, registered a change in the company name from Trakcja Polska S.A. to Trakcja – Tiltra S.A. The above change was registered pursuant to Resolution No. 3 adopted by the Extraordinary General Meeting on June 15, 2011.

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

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

On December 19, 2013 the District Court of the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, registered a change in the Company'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 Złota 59 Street in Warsaw. Both the Parent Company and other entities that are members of the Group are established for an indefinite period of time.

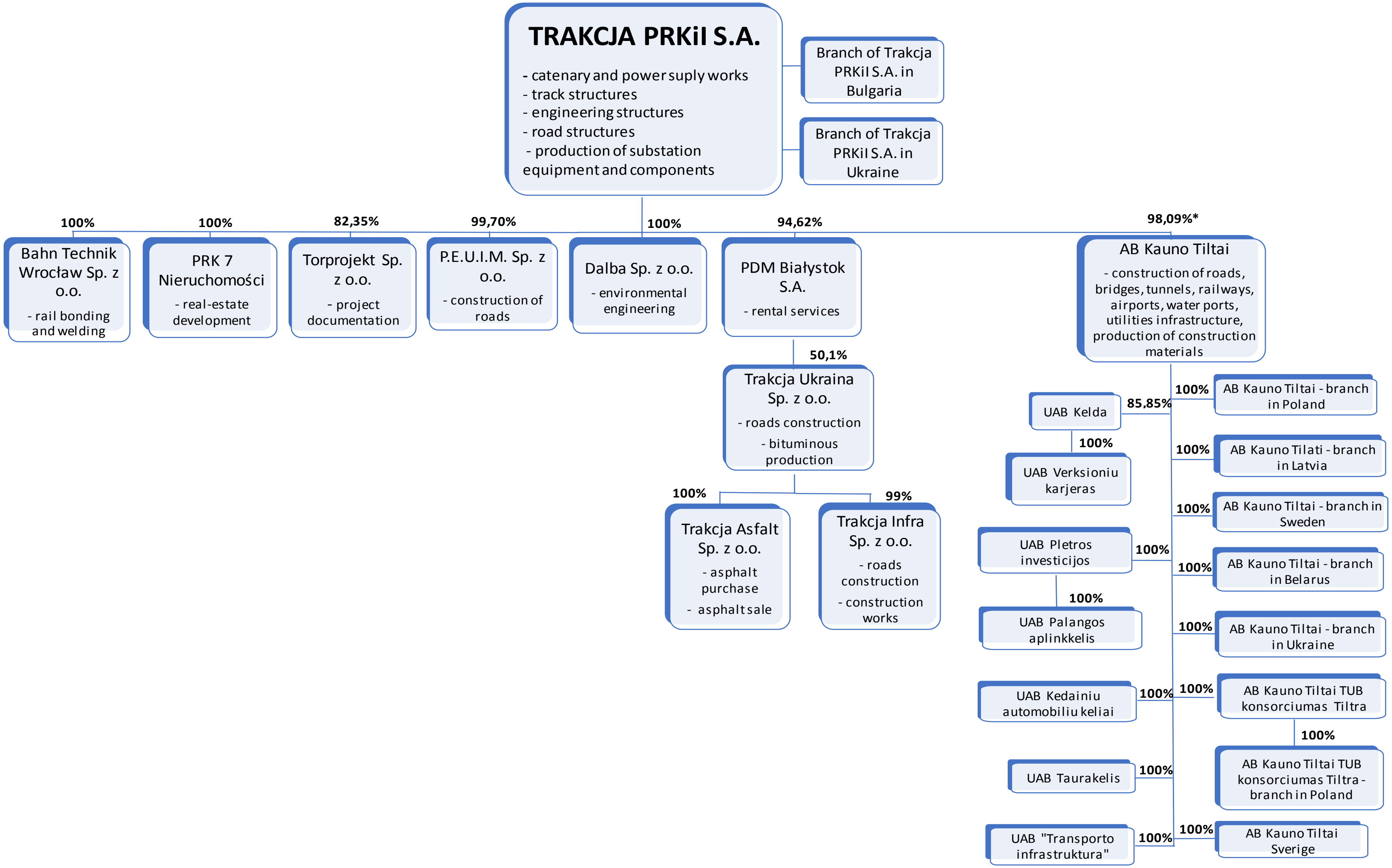
According to the Articles of Association, the Parent Company renders specialist construction and installation services within the scope of railway and tram lines electrification. The Company specialises in the following types of activity:

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

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

2. Group structure

As at September 30, 2018 the Group consists of the Parent Company (Trakcja PRKiI S.A.) and its subsidiaries. The Group's organisational structure is presented in the diagram below:



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

3. Changes in the Group structure and their consequences

In the third quarter of 2018, the Trakcja Group's structure has not changed, and neither business combination, acquisition or loss of control over subsidiaries or long-term investments nor division, restructuring or discontinuation of business occurred.

4. Parent Company's Management Board

As at September 30, 2018 the Company's Management Board was composed of the following members:

- Marcin Lewandowski - President of the Management Board;
- Marek Kacprzak - Vice-President of the Management Board;
- Paweł Nogalski - Vice-President of the Management Board;
- Maciej Sobczyk - Vice-President of the Management Board;
- Aldas Rusevičius - Vice-President of the Management Board.

On June 7, 2018 the Supervisory Board of the Company adopted a resolution by which it appointed Mr. Marcin Lewandowski to the position of the President of the Management Board of the Company on September 1, 2018.

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

5. Parent Company's Supervisory board

As at September 30, 2018 the Company's Supervisory Board was composed of the following members:

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

Both in the analysed period and after the balance sheet date, there have been no changes to the Supervisory Board's composition. As at the date of publication of this report, the Supervisory Board operated in an unchanged composition.

6. Parent Company's Shareholdership

As at September 30, 2018 and as at the preparation hereof, the Parent Company's share capital, in accordance with the entry in the National Court Register, was PLN 41,119,638.40 and was divided into 51,399,548 ordinary shares with a nominal value of PLN 0.80 per share. Each share constitutes one vote at the General Meeting of Shareholders.

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

(Data in PLN thousand, unless indicated otherwise)

Shareholders	Number of shares	% in votes at GSM	% in the total number of votes
COMSA S.A.	16 156 193	31,43%	31,43%
OFE PZU "Złota Jesień"*	5 732 694	11,15%	11,15%
Other shareholders	29 510 661	57,42%	57,42%
Total	**51 399 548**	**100,00%**	**100,00%**

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

As at the date of publication of the last periodic report – half-year report for 2018 – i.e. since August 30, 2018 shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of Trakcja PRKiI S.A. steady based on the notifications referred to in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, the following entities were:

Shareholders	Number of shares	% in votes at GSM	% in the total number of votes
COMSA S.A.	16 156 193	31,43%	31,43%
OFE PZU "Złota Jesień"*	4 349 650	8,46%	8,46%
Other shareholders	30 893 705	60,11%	60,11%
Total	**51 399 548**	**100,00%**	**100,00%**

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

From the date of submission of the last periodical report, i.e. on August 30, 2018, the Parent Company did received a notification from shareholders informing about a change in the share in the total number of votes in the Parent Company:

On October 16, 2018, the Company received a notification from from PZU SA Pension Society (PTE PZU SA) acting on behalf of the PZU Open Pension Fund "Złota Jesień" (OFE PZU), that due to the closure of Pekao Otwarty Fundusz Emerytalny (Pekao OFE) on October 12, 2018, resulting in the transfer of all Pekao OFE assets on that day to PZU Open Pension Fund and entering PZU's Open Pension Fund into all rights and obligations of Pekao OFE, until now the share of OFE PZU in the total number of votes in the Company increased and exceeded the threshold of 10% of the total number of votes, amounting now to 11.15%. The company informed about the above in current report No. 19/2018.

7. Number of shares in the Parent Company held by members of its management and supervision bodies

Since the publication of the most recent periodic report, i.e. since August 30, 2018 there have been no changes in the number of shares in the parent company held by members of the management and supervision bodies.

The Company's Management Board and Supervision Board members do not hold any shares in the parent company or any of the related entities being members of Trakcja Group.

8. Approval of the financial statements

These condensed consolidated financial statements were approved for publication by the Management Board of the Parent Company on November 15, 2018.

9. Significant values based on professional judgement and estimates

Significant values based on professional judgement and estimates are described in detail in Note 7 to the consolidated annual financial statements of Trakcja Group for 2017. During the 9 months ended on September 30, 2018 no significant changes have been made to any such accounting estimates, assumptions or professional judgement of the management as verified as at September 30, 2018.

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

9.1. Professional judgement

Fair value of financial instruments

If the market for financial instruments is not active, their fair value is established by using relevant measurement techniques. When selecting methods and assumptions, the Group follows the professional judgement. The assumptions made for this purpose are presented in Note 47 of the Notes to the consolidated financial statements for 2017.

In the third quarter of 2018, the Group has not changed the measurement method for financial instruments measured at fair value. The carrying amounts of financial assets and liabilities are close to their fair values.

Classification of leases

The Group classifies a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. This depends on the economic substance of each transaction. For additional information please refer to Note 9.3.4, 42 and 43 to the consolidated financial statements for 2017.

Investment properties

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

Allocation of goodwill to cash generating units

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

Classification of joint contractual arrangements

The Group verifies whether it exercises joint control and determines the type of joint arrangement in which it is involved by considering its rights and obligations under a given arrangement and the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangement

Control over related entities

The Parent Company exercises control over related entities, if it is exposed or has rights to variable returns from its involvement and when it is in a position to use its powers over an entity to exert an effect on such returns. In the third quarter of 2018 the Parent Company did not take control over any significant entity. The composition of the Group structure and the percentage of shares held are presented in note 2 of Notes to the consolidated financial statements.

9.2. Estimates uncertainity

Recognition of revenue

Pursuant to IFRS 15, the Group recognizes revenues on the account of performing uncompleted construction services in accordance with the 5-stage model; for the purpose of measuring the level of a complete fulfilment of the required performance the Group applies the input-based method. The volume of sales for contracts concluded in a foreign currency depends on the general trends of foreign exchange.

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. It is subject to individual review and may be increased or decreased when necessary. Any change in the estimates affects the value of the provisions. The change in the provisions for additional works is presented in Note 23.

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.

Measurement of employee benefit liabilities

Any employee benefit liabilities for retirement allowances and jubilee bonuses in the current period are estimated on the basis of actuarial methods. The amount of liability depends on various factors which are applied 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.

Deferred tax assets

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

Amortisation and depreciation rates

Depreciation and amortisation rates are determined on the basis of the expected economic useful lives of tangible non-current assets and intangible assets. Every year the Group reviews the adopted economic useful lives using current estimates. During the 9 months ended on September 30, 2018, no significant changes were made to the amortisation and depreciation rates applied by the Group.

Investment properties

Investment properties are measured at fair value. The value of investment properties is determined by independent experts who hold valid authorisations to perform such valuations. In selecting the approach and technique thereof, the Group follows 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 valuation and rules and method for preparing valuation reports. Fair value of investment properties is measured by way of applying measurement techniques that require a maximum use of observable data. As at 30 September 2018 the Group did not perform any measurements, as no circumstances occurred which would indicate that the value of investment properties might have changed.

Goodwill impairment

Pursuant to IAS 36, cash-generating units to which goodwill has been allocated are tested for impairment annually by the Parent Company's Management Board. The tests performed consist in the estimation of the value in use of cash generating units ("CGU") on the basis of future cash flows generated by such units, which are next adjusted to their present value with the use of a discount rare. As at September 30, 2018 the Group did not perform any tests for impairment, as no circumstances occurred which would indicate that cash generating units might have been impaired. The goodwill impairment losses are described in detail in Note 22.

Impairment of financial assets

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

Write-downs of inventories

The Management Board assesses whether there are any indications that inventories may need to be written down in accordance with Note 9.12 of the Notes to the Consolidated Financial Statements for 2017. For that purpose, the Company estimates the net realisable value of those inventories that lost their functional properties or are no longer useful. The goodwill impairment losses are described in detail in Note 22

Write-down to trade receivables and other receivables

Pursuant to IFRS 9, the Group recognizes write-downs on the account of expected credit losses due to trade receivables and other receivables. In terms of trade receivables, the Group applies a simplified method for receivables recognized in the group dimension – for these receivables, a write-down is made for so-called lifelong credit losses, regardless of the analysis of credit risk changes. In terms of other receivables and held financial instruments, the Group defines the write-down to the 12-month expected credit losses if the credit risk is low or it has not increased significantly since the date of including the given component of receivables in the balance sheet, in the amount equivalent to the expected credit losses throughout the life, if the credit risk related with the given component of financial assets has increased significantly since the initial recognition. A change to the write-down to trade receivables and other receivables is presented in Note 22

Fair value and its measurement

Some assets and liabilities of the Group are measured at fair value for the purposes of financial reporting. The Company measures the fair value of assets or liabilities, to the extent possible, on the basis of the market data observable. The detailed information on the items measured at fair value is presented in Note 25 and 27. Information regarding measurement techniques and input data used for measuring the fair value of individual assets and liabilities is disclosed in Note 23, 40 and 47 of the Notes to the consolidated financial statements for 2017.

10. Basis for preparing the condensed consolidated financial statement

The condensed consolidated financial statements were prepared according to the historical cost principle, except for the financial derivatives, investment property and available-for-sale financial assets which are measured at fair value.

These condensed consolidated financial statements are presented in Polish zlotys ("PLN") and all amounts are expressed in thousands of Polish zlotys, unless stated otherwise.

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

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.

The subsidiaries of AB Kauno Tiltai Group and the following subsidiaries: PRK 7 Nieruchomości Sp. z o.o. i Torprojekt Sp. z o.o., PEUIM Sp. z o.o., Dalba Sp. z o.o., PDM Białystok S.A. and Bahn Technik Wrocław Sp. z o.o. are consolidated using the full consolidation method.

All intra-group transactions and balances, including unrealised profits on intra-group transactions, have been completely eliminated. Unrealised losses are eliminated unless they are an impairment indicator. Due to the development of operating activities in Trakcja Ukraina Sp. z o.o., Trakcja Asfalt Sp. z o.o. and Trakcja Infra Sp. z o.o. and significant impact on the Group's results, the above companies started to be consolidated.

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 thereof is recognised in the equity.

11. Statement of compliance

These condensed consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union. At the approval hereof, as far as the accounting principles adopted by the Group are concerned, there are no significant differences between the IFRS standards and the IFRS standards approved by the EU. Any standards other than those that were in force as of September 30, 2018 and were approved by the EU as at the preparation hereof are described in Note 12.

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

Measurement currency and currency of the financial statements

The Polish zloty is the measurement currency of the Parent Company and the majority of the companies within the Group, as well as the reporting currency in these condensed consolidated financial statements for the third quarter of 2018. The euro is the measurement currency of the companies with their registered offices in Lithuania and the AB Kayno Tiltai branch in Latvia, whereas the Swedish crown (SEK) is the currency of AB Kauno Tiltai Sverige and the Ab Kauno Tiltai branch in Sweden; the Belarusian rouble (BYN) is the currency of AB Kauno Tiltai Branch in Belarus, the Bulgarian lev (BGN) is the currency of the establishment of Trakcja PRKiI S.A. in Bulgaria , and the Ukrainian hryvnia (UAH) is the currency of Trakcja Ukraina Sp. z o.o., Trakcja Infra Sp. z o.o., Trakcja Asfalt Sp. z o.o. and the establishment of Trakcja PRKiI S.A. in Ukraine.

12. Significant accounting principles

Except for the changes specified below, the accounting principles (policy) applied to these condensed consolidated financial statements for the third quarter of 2018 are consistent with those applied to the annual consolidated financial statements for 2017, except for the changes described below. The same principles apply to both the current and comparable period, unless a given standard or interpretation is to be applied only prospectively.

The effect of using new accounting standards and amendments to the accounting policy

In the period covered with the condensed financial statement the following amendments to the accounting principles and principles of drawing up financial statements have been introduced.

• **IFRS 9 "Financial Instruments" -** IFRS 9 "Financial Instruments" introduces amendments with regard to recognising and measuring financial assets, principles of financial assets impairment, as well as modifies the approach to the hedge accounting.

Classification, measurement and impairment - the standard introduces a new approach to the financial assets classification which depends on the cash flow characteristics (SPPI test) and a business model connected with given assets, as well as a new model of impairment stipulated on the grounds of expected losses, requiring recognising expected credit losses on an ongoing basis.

Hedge accounting – the standard introduces the possibility to use a reformed hedge accounting model with extended requirements regarding risk management disclosures. The new model constitutes a significant amendment to hedge accounting aimed at adjusting accounting principles to practical risk management.

Classification

IFRS 9 classifies financial assets to the following categories:

- measurement at amortised cost;
- measurement at fair value through other comprehensive income;
- measurement at fair value through profit or loss.

(Data in PLN thousand, unless indicated otherwise)

Recognition

The Group recognises debt financial assets in a relevant category depending on the business model of financial assets management and on the characteristics of contractual cash flows for a given financial asset (on the grounds of the SPPI test).

Financial assets measured at amortised cost

The Group classifies accounts receivable due to deliveries and services and other accounts receivable, bank guarantees' securities, granted loans, financial assets due to a licence agreement as well as cash and cash equivalents, as assets measured at amortised cost.

After initial recognition, accounts receivable due to deliveries and services and other accounts receivable are recognised at amortised cost with the use of the effective interest rate method, with a consideration of impairment write-offs, whereas, accounts receivable due to deliveries and services and other accounts receivable with maturity date shorter than 12 months as of the recognition day (i.e. not including a financing element) are not discounted and are measured at nominal value.

Financial assets measured at fair value

The Group does not have capital instruments classified under IFRS 9.

The Group classifies derivative instruments not designated for hedge accounting purposes and hedged items, which are subject to recognition in compliance with hedge accounting principles, as assets measured at fair value through profit or loss.

Impairment

IFRS 9 introduces a new approach to estimate impairment of financial assets measured at amortised cost or at fair value through other comprehensive income (with an exception of capital investment and contractual assets). The impairment model is based on the calculation of expected losses as opposed to the previously used model under IAS 39, which was based on the incurred losses concept. The most significant financial assets' item in the Group's financial statement, which is governed by new principles of calculating expected credit losses, comprises trade receivables due to deliveries and services.

With regard to infrastructural entities, as on each balance sheet day the Group individually assesses expected losses on recognised amounts of accounts receivable and probability of existence thereof. This assessment is conducted on the grounds of an estimated result of negotiations in cases of disputes. With regard to other entities, the Group has used a model of group assessment of expected losses. For the purposes of estimating expected credit loss the Group uses historical levels of credit losses depending on the overdue periods corrected with current expectations regarding the evolution of these factors in the future. Therefore, as on 1 January 2018, impairment write-offs (after consideration of the deferred tax) decreased the Group's share capital by the amount of PLN 2,751 thousand in correspondence with decreasing the balance sheet value of accounts receivable due to deliveries and services and other accounts receivable.

The table below presents the impact of implementing IFRS 9 on the amendment of classification and measurement of the Group's financial assets as on January 1, 2018:

Financial instrument	Classification		Balance sheet value	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Deposits in bank guarantees	held to maturity date	amortised cost	17 222	16 154
Loans granted and own receivables	held to maturity date	amortised cost	213	213
Financial assets under a concession contract	loans and receivables	amortised cost	41 571	41 571
Trade receivables and other receivables	loans and receivables	amortised cost	324 094	320 804
Cash and cash equivalents	loans and receivables	amortised cost	112 184	112 184

(Data in PLN thousand, unless indicated otherwise)

Capital instruments are recognised in compliance with IAS 27 according to the purchase price decreased by the impairment.

The Group classifies financial liabilities to the following categories:

- measurement at amortised cost;
- measurement at fair value through profit or loss;
- hedge financial instruments.

With regard to the entry into force of IFRS 9 no amendments were introduced to the classification of the Group's financial liabilities, therefore, it has no influence on the consolidated financial statement.

Hedge accounting

The Group uses hedge accounting in the Lithuanian part of the Group, where hedge financial instruments are recognised in compliance with the principles of hedge accounting. In the aforementioned case, IAS 39 is still applied, the new model of hedge accounting under the IFRS 9 has not been introduced. IFRS 9 allows further application of IAS 39 in the scope of hedge accounting until publication of a new standard regarding macro hedge.

Impact on the consolidated financial statement

The Group applied IFRS 9 retrospectively for periods starting past January 1, 2018 without transforming comparable data. Differences resulting from the amendment to the financial assets measurement as on the day of the first application of IFRS 9 have been recognised in other reserve capitals.

With regard to the recognition under IFRS 9, as on 1 January 2018, share capital was decreased by PLN 3,418K with a decrease in the balance sheet value of relevant items. This amount had been calculated on the grounds of the new model of impairment stipulated on the grounds of expected losses, requiring recognising expected credit losses on an ongoing basis.

The impact of changes on selected balance sheet items is presented below:

	31.12.2017	*IFRS 9 influence*	1.01.2018
ASSETS			
Non-current assets	**731 454**	**(442)**	**731 012**
Other financial assets	44 147	(1 068)	43 079
Deferred tax assets	9 836	626	10 462
Current assets	**710 826**	**(3 290)**	**707 536**
Trade and other receivables	324 094	(3 290)	320 804
TOTAL ASSETS	**1 442 280**	**(3 732)**	**1 438 548**
Equity and liabilities			
Equity (attributable to shareholders of parent entity)	**756 979**	**(3 418)**	**753 561**
Other capital reserves	361 588	(3 418)	358 170
Non-controlling interests	**5 055**	**-**	**5 055**
Total equity	**762 034**	**(3 418)**	**758 616**
Long-term liabilities	**116 953**	**-**	**116 953**
Short-term liabilities	**563 293**	**(314)**	**562 979**
Trade and other liabilities	335 049	(314)	334 735
TOTAL EQUITY AND LIABILITIES	**1 442 280**	**(3 732)**	**1 438 548**

- **IFRS 15 "Revenue from Contracts with Customers"**

As of January 1, 2018, IFRS 15 is binding and it has replaced IAS 11 "Construction Contracts" and IAS 18 "Revenues". In compliance with IFRS 15 recognition of revenues should present the transaction of transferring goods or services onto the customer (the Contracting Authority) in the amount reflecting the value of remuneration expected by the entity in exchange for goods or services.

The IFRS 15 standard introduced a five step model of recognising revenues: 1. Identification of a contract with a customer 2. Identification of performance obligations 3. Determining the transaction price 4. Allocation of the transaction price to separate performance obligations 5. Recognition of revenue as each performance obligation is satisfied.

The Group analysed the contents of sales contracts concluded with customers (construction contracts), in order to identify differences resulting from the implementation of IFRS 15 and recognising revenues in compliance with the aforementioned five step model.

As a result of conducted works, the Group stated a lack of a significant impact of implementing IFRS 15 on consolidated financial statement and has not introduced thereto any corrections due to the implementation of IFRS 15 as on January 1, 2018.

With regard to the implementation of IFRS 15 the Group updated the accounting policy in the scope of recognising revenues in order to adjust it to IFRS 15. The Group has introduced IFRS 15 in compliance with the modified retrospective method.

As of January 1, 2018 the Group recognises revenues due to the provision of unfinished construction services in compliance with the 5 step model and applies the input-based method. In the Parent Company's Management Board's opinion the input-based method is the best method adjusted to stipulating revenues from long-term contracts.

With an exception of amendments resulting from applying IFRS 9 and IFRS 15 in the period covered by the consolidated financial statement, no other amendments have been made to the accounting principles and principles of drawing up consolidated financial statement in comparison with the ones recognised in the Group's consolidated financial statement for 2017, which was published on March 28, 2018.

13. Description of factors and events that have a significant impact on the financial performance of Trakcja Group in the third quarter of 2018

As at September 30, 2018 the Trakcja Group's portfolio of construction contracts amounted to PLN 2,899 million (excluding any revenues allocated to consortium members). In the three quarters of 2018, the companies within Trakcja Group signed construction contracts with the total value of PLN 2,045 million (excluding the revenues allocated to consortium members). Striving to maximize the production potential, the Trakcja Group takes part in new tenders. However, due to the fact that the order portfolio held on September 30, 2018 is significant, the Group selectively selects tenders in which it takes part.

The Trakcja Group's sales revenues for the third quarter of 2018 were PLN 518,321 thousand, that is they increased by PLN 106,213 thousand as compared to the analogous period of 2017. Due to the expansion of operating activities in Trakcja Ukraina Sp. z o.o., Trakcja Asfalt Sp. z o.o. and Trakcja Infra Sp. z o.o. and significant impact on the Group's results, the above companies were consolidated which resulted in recognition in the third quarter of 2018 of sales revenues attributable to these companies in the amount of PLN 26,074 thousand. The cost of goods sold increased by PLN 101,015 thousand and amounted to PLN 491,386 thousand.

The gross profit on sales totaled PLN 26,935 thousand and increased by PLN 5,198 thousand as compared to the corresponding period of the previous year. In the third quarter of 2018, the gross profit margin was 5.2%, while in the corresponding period of 2017 it was 5.3%. The increase in the margin in the third quarter of 2018 concerns mainly the parent company of the Group and results from the relatively low level of the third quarter results in the previous year. The details have been described in the consolidated quarterly report for the period of 9 months ended September 30, 2017, in point 13.

The general and administrative costs were PLN 14,170 thousand and increased by 13.8%, i.e. by PLN 1,721 thousand, in comparison with the comparable period. The cost of sales, marketing and distribution amounted to PLN 1,365 thousand and decreased by PLN 260 thousand. The impact of consolidation in the third quarter of Trakcja Ukraina Sp. z o.o., Trakcja Asfalt Sp. z o.o. and Trakcja Infra Sp. z o.o. on general and administrative expenses as well as sales, marketing and distribution costs amounted to PLN 852 thousand. The net result on other operating activities of the Group was negative and amounted to PLN 417 thousand and dropped by PLN 764 thousand as compared to the comparable period. The Group's operating profit for the third quarter of 2018 was PLN 10,983 thousand. The operating profit increased by PLN 2,973 thousand as compared to the third quarter of 2017, when it reached PLN 8,010 thousand.

The Group's result on financial activities for the third quarter of 2018 was negative in the amount of PLN 1 792 thousand and decreased by PLN 2,123 thousand in relation to the result on financial activities for the third quarter of the preceding year due to debt increase.

The Group's gross profit for the period from July 1, 2018 to September 30, 2018 was PLN 9,191 thousand. The gross profit for the third quarter of 2018 increased by PLN 850 thousand as compared to the third quarter of 2017, when it was PLN 8,341 thousand. The income tax for the third quarter of 2017 decreased the gross profit by PLN 2,049 thousand and was higher by PLN 922 thousand as compared to the corresponding period of the previous year. The Group's net profit for the period from July 1, 2018 to September 30, 2018 was PLN 7,142 thousand. It was lower by PLN 72 thousand than the net profit for the third quarter of 2017.

At the end of the third quarter of 2018, the Group's balance sheet total was PLN 1,659,988 thousand and was higher by 15.1% than the balance sheet total at the end of 2017.

The non-current assets increased by PLN 35,279 thousand (i.e. by 4.8% of the non-current assets as at December 31, 2017) and amounted to PLN 766,733 thousand, while the current assets grew by PLN 182,429 thousand, i.e. by 25.7% in comparison with their value as at December 31, 2017 and reached PLN 893,255 thousand.

The increase in the non-current assets was mainly caused by a growth of tangible non-current assets by PLN 30,756 thousand, which as at 30 September 2018 were PLN 297,609 thousand. Tangible non-current assets increased primarily due to the construction of a modern equipment base in Bieńkowice and due to investments in railway and road equipment.

The increase in current assets occurred mainly due to the increase of the value of construction contracts and paid advances for executed contracts by PLN 127,138 thousand, i.e. 86.6%. Construction contracts and paid advances for executed contracts as at September 30, 2018 amounted to PLN 273.925 thousand. The value of trade receivables and other receivables has also risen in comparison to the balance as at the end of the previous year, from PLN 324,094 thousand to PLN 428,585 thousand, i.e. by PLN 104,491 thousand. As at September 30, 2018 the value of cash and cash equivalents has decreased by PLN 83,280 thousand, i.e. by 74.2% compared to December 31, 2017. This is the result of a large increase in the number of contracts carried out during the 9 months of 2018 (including the road market), which was associated with high involvement of the working capital of the Group.

As at September 30, 2018 the total equity of the Group decreased by PLN 11.981 thousand in comparison with its balance as at December 31, 2017. The decrease was mainly due to the adoption of a resolution on the payment of a dividend in the amount of PLN 5,140 thousand (in accordance with the resolution of the General Meeting of June 26, 2018) and the net loss recognized for the period of 9 months of 2018.

As at September 30, 2018 the long-term liabilities amounted to PLN 190,094 thousand and increased by PLN 73,141 thousand, i.e. by 62.5%, in comparison with their balance as at December 31, 2017. In particular, interest-bearing loans and long-term loans have grown, which as at September 30, 2018 totaled PLN 161,934 thousand and increased by PLN 74,273 thousand, i.e. by 84.7% compared to December 31, 2017.

The short-term liabilities amounted to PLN 719,841 thousand and rose by 27.8%, i.e. by PLN 156,548 thousand, as compared to December 31, 2017. The increase was mainly related with an increase in the value of trade payables and other liabilities by PLN 115,784 thousand and with an increase in short-term interest-bearing loans and borrowings by PLN 88,444 thousand.

At the beginning of 2018, the Group's cash presented in the consolidated cash flow statement was PLN 112,172 thousand, while at the end of the 9-month period it was PLN 28,892 thousand. The total net cash flows for the first 9 months of 2018 were negative and amounted to PLN 83,280 thousand, which constituted a decrease by PLN 11,239 thousand in comparison with the corresponding period of 2017.

14. Seasonality and cyclicality

The sale of the construction and installation, renovation, as well as road and rail services in Poland is of a cyclical nature above all due to the weather conditions. The highest revenues are usually generated in the third and fourth quarters and the lowest in the first quarter

15. Information on issue, redemption and repayment of debt or equity securities

In the third quarter of 2018, the Group did not issue, redeem or repay any debt or equity securities.

16. Amounts that have had a significant impact on assets, liabilities, equity, net profit/loss or cash flows which are atypical due to their type, size, impact or frequency

In the opinion of the Management Board, in the 9-month period ended September 30, 2018, except for the factors described in other notes hereto, no other significant events occurred, which could have had an impact on the assessment of the Trakcja Group's financial condition. The Group's performance for the year was primarily affected by the contracts completed by the Group.

17. Factors that will have an impact on the Group's performance at least in the next quarter.

The most important factors that will have an essential impact on the future financial performance of the Group include the following:

- the ability to win new construction contracts, which on account of the profile of the Group's activities is determined by expenditures on the railway and tramway infrastructure in Poland and Lithuania, as well as on new markets,
- the accuracy of the project cost estimates, as it exerts a direct impact on the decisions regarding the participation in tenders, the valuation of contracts for tenders and as a result the margins on the contracts. The accuracy of the contract cost budget estimates, which, in turn, depends on both methodological and external factors such as changes in prices for materials and services rendered by subcontractors,
- the Central Bank's monetary policy reflected in the interest rate changes. For the purpose of financing the acquisitions planned, the Group may take out bank loans, and therefore it may incur financial expenses determined by the interest rate levels,
- the timeliness in repayment of liabilities by customers. A failure to do so by customers may lead to the deterioration in the Group's financial liquidity,
- the level of material prices, including transport costs,
- growing bargaining power of subcontractors (impact on the level of prices of services provided by them),
- the increasing pressure on margins,
- the number of awarded contracts within the scope of the programme "National Railway Programme up to 2023",
- the number of awarded contracts within the scope of the programme "2014-2023 National Roads Contraction Programme with a 2025 perspective",
- ability to engage highly qualified staff,
- a decrease in the number of entities participating in tenders on the Polish railway market,
- further diversification of activities by way of increasing the Group's operations in the road and power segment,

- results of court cases.

Moreover, in the future, the Group's financial performance may be affected by changes in the legal regulations designating the scope of the Group's activities, including tax regulations and any regulations regarding other encumbrances of a public and legal nature, as well as any regulations regarding the following:

- the procedure for awarding public procurements, in particular, an amendment to the Public Procurement Law,
- the public and private partnership,
- the financing of railway infrastructure,
- the environmental protection in the scope of the implementation of individual projects, in particular, the Environmental Protection Law,
- the property development activities of PRK 7 Nieruchomości Sp. z o.o.

18. Risk factors

Factors that may significantly deteriorate the financial condition of the Group include the following:

- risk of growing competition,
- risk of changes in the strategy of the Polish and Lithuanian authorities with regard to the modernisation of infrastructure over the next few years,
- risk of being dependent on key customers,
- risk of a potential loss of subcontractors and a potential rise in prices for services rendered by subcontractors,
- risk of subcontractors bunkruptcy,
- risk associated with the lack of qualified employees,
- risk of loss of management and engineering staff,
- currency risk,
- risk related to the volatility of prices for materials,
- risk of interest rate fluctuations,
- risk associated with the joint and several liability of members of construction consortia and with the liability for improper performance of construction works by subcontractors,
- risk of potential penalties for failure to complete contracts,
- risk of underestimating the project costs,
- risk of increase in materials' prices
- risk concerning completing the construction contracts,
- risk connected with acquiring new contracts,
- risk related to supply logistics,
- risk associated with the conditions and procedures for awarding tenders and with the completion of projects,
- risk of growing a portfolio of overdue receivables,
- risk related to financial agreements,
- liquidity risk,
- risk of implementing the strategy,

- risk associated with obtaining financing for the implementation of construction contracts and obtaining contract guarantees,
- risk related to obtaining financing for the performance of construction contracts and obtaining contract guarantees,
- risk related to weather conditions,
- risk connected with changes in law, including tax law.

19. Opinion of the Management Board on the published forecast

The Management Board of Trakcja PRKiI S.A. did not publish any financial forecast for 2018.

20. Brief description of significant accomplishments or failures in the third quarter of 2018

The Group's significant accomplishments in the 9-month period ended September 30, 2018 include the following:

- Signing new contracts valued at PLN 2,045 million (exluding the part assigned to consortium partners), which constitutes an increase of PLN 302 million (17.3%) in comparison to the same period of the previous year.
- Generating gross profit on sales in the amount of PLN 37,803 thousand despite the difficult situation on the Polish and Lithuanian market.
- Rebuilding the contracts portfolio after a period of increased competition.
- Securing the availability of guarantee limits: as at September 30, 2018 the Trakcja Group's companies had at their disposal guarantee limits in the amount of up to PLN 556 million.

21. Information material for the assessment of the Group's employment, assets, financial condition and performance and changes therein, as well as information material for the assessment of the Parent Company's ability to meet its obligations

No information material for the assessment of the Group's employment, assets, financial condition and performance and changes therein or for the assessment of the Group's ability to meet its obligations is available other than that presented in these condensed consolidated financial statements for the 9-month period ended on September 30, 2018.

(Data in PLN thousand, unless indicated otherwise)

22. Change in impairment losses and write-downs

	Tangible asstes	Goodwill	Inventory	Receivables	Total
As at 1.01.2018	**792**	**61 532**	**634**	**69 617**	**132 575**
Audited					
IFRS 9 implementation	-	-	-	3 221	3 221
As at 1.01.2018 after adjustments	**792**	**61 532**	**634**	**72 838**	**135 796**
Recognized	-	-	112	3 611	3 723
Variances due to currency translation	-	-	11	55	66
Used	-	-	-	(51)	(51)
Reversed	-	-	-	(8 080)	(8 080)
As at 30.09.2018	**792**	**61 532**	**757**	**68 373**	**131 454**
Unaudited					

23. Provisions

As at 1.01.2018	**26 096**
Audited	
Recognized	8 839
Foreign exchanges due to currency translation	179
Used	(11 570)
Reversed	(3 025)
As at 30.09.2018	**20 519**
Unaudited	
including	
- long-term	11 261
- short-term	9 258

During the 9-month period ended 30 September 2018, the Group created a provision for additional works in the amount of PLN 1,359 thousand, used a provision for the same purpose in the amount of PLN 1,662 thousand and released a provision in the amount of PLN 1,356 thousand. In addition, in the 9-month period ended 30 September 2018, the Group created a provision for a bonus in the amount of PLN 4,115 thousand, used a provision for the same purpose in the amount of PLN 8,425 thousand and released a provision in the amount of PLN 1,017 thousand.

24. Acquisitions and disposals of tangible non-current assets and other intangible assets

From January 1, 2018 to September 30, 2018, the Group purchased tangible non-current assets and intangible assets in the amount of PLN 51,013 thousand (as compared to PLN 51,980 thousand in the comparable period of 2017). From January 1, 2018 to September 30, 2018, the Group disposed of tangible non-current assets and intangible assets in the total book value of PLN 491 thousand (as compared to PLN 5,711 thousand in the comparable period of 2017).

(Data in PLN thousand, unless indicated otherwise)

25. Information on changes in the measurement method for financial instruments measured at fair value

In the third quarter of 2018, the Group did not change the measurement method for any categories of financial instruments measured at fair value as compared to the annual consolidated financial statements. The carrying amounts of financial assets and liabilities are close to their fair values.

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 EURIBOR, and therefore their fair values are close to their carrying amounts.

The 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.

In the third quarter of 2018, no fair value was reallocated to level 1, 2 or 3.

26. Information on reclassification of financial assets due to changes in their purpose or use

With the exception of the change in the classification of financial assets related to the entry into force of IFRS 9, in the third quarter of 2018, the Group did not make any other changes to the classification of financial assets. Details of reclassification to new categories under IFRS 9 are presented in note 12.

27. Assets and liabilities measured at fair value

The Group measures at fair value such categories of assets and liabilities as investment property and financial derivatives. In the period of 9 months ended September 30, 2018 the measurement method for the aforementioned assets and liabilities remained unchanged. The measurement method applied and the unobservable inputs used for measurement are described in detail in the Group's consolidated annual financial statements for 2017.

Balance sheet elements accounted in fair value	Level 1		Level 2		Level 3	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017	30.09.2018	31.12.2017
Derivatives (liability)	-	-	4 825	5 311	-	-
Investment property	-	-	-	-	20 077	20 097
Office properties	-	-	-	-	15 438	15 438
Land properties	-	-	-	-	1 695	1 715
Deposits of natural resources	-	-	-	-	2 944	2 944

In the period of 9 months ended September 30, 2018 no reallocations were made to level 1, 2 or 3.

28. Information on segments

Segments are described in the consolidated annual financial statements of Trakcja Group for 2017.

Data regarding companies from Ukraine were recognized by the Group in the "Other segments" segment.

Key customers:

In the period of 9 months of 2018, revenues from transactions with external single customers constituted respectively 10% or more of the total revenues of the Group. Total revenues by type of customers and by segments to which such revenues pertain are presented in the table below.

Client	The total amount of income obtained in 9 months ended 30.09.2018 from a single customer (thousand PLN)	Operation segment containing the revenues
Client 1	422 371	Civil construction - Poland
Client 2	121 972	Civil construction - Poland

The Group does not present its revenues from external customers by revenues from goods and revenues from services, because the performance of segments is analysed in terms of the construction contracts completed by individual segments.

(Data in PLN thousand, unless indicated otherwise)

Operating segments:

For the period from 1.01.2018 to 30.09.2018
Unaudited

	Continued operations						
	Civic building - Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales to external customers	803 861	260 495	32 816	1 097 172	-	-	1 097 172
Sales between segments	8 598	12	48	8 658	-	(8 658)	-
Total segment revenues	**812 459**	**260 507**	**32 864**	**1 105 830**	**-**	**(8 658)**	**1 097 172**
Results							
Depreciation	14 564	8 238	412	23 214	-	-	23 214
Financial income - interests	476	2 667	107	3 250	-	(138)	3 112
Financial expenses - interests	4 481	1 965	87	6 533	-	(138)	6 395
Gross profit	**(3 199)**	**(1 120)**	**(40)**	**(4 359)**	**-**	**(9 386)**	**(13 745)**

For the period from 1.01.2017 to 30.09.2017
Unaudited

	Continued operations						
	Civic building - Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales to external customers	599 124	344 192	6 440	949 756	-	-	949 756
Sales between segments	3	-	2	5	-	(5)	-
Total segment revenues	**599 127**	**344 192**	**6 442**	**949 761**	**-**	**(5)**	**949 756**
Results							
Depreciation	14 423	7 568	18	22 009	-	-	22 009
Financial income - interests	1 399	2 654	18	4 071	-	(28)	4 043
Financial expenses - interests	2 698	2 040	32	4 770	-	(28)	4 742
Gross profit	**22 570**	**7 539**	**(196)**	**29 913**	**-**	**(19 143)**	**10 770**

(Data in PLN thousand, unless indicated otherwise)

As at 30.09.2018 *Unaudited*	Continued operations						
	Civic building - Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Segment assets	**1 090 466**	**737 039**	**63 418**	**1 890 923**	**-**	**(241 541)**	**1 649 382**
Assets not allocated to segments							10 606
Total assests							**1 659 988**
Segment liabilities*	**601 020**	**204 439**	**18 516**	**823 975**	**-**	**(104 134)**	**719 841**
Other disclosures:							
Capital expenditure	(18 394)	(8 333)	(4 336)	(31 063)	-	-	(31 063)
Impairment of non-financial assets	112	-	-	112	-	-	112

** short-term liabilities were allocated to assess segment*

As at 31.12.2017 *Audited*	Continued operations						
	Civic building - Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Segment assets	**935 784**	**674 328**	**39 919**	**1 650 031**	**-**	**(217 587)**	**1 432 444**
Assets not allocated to segments							9 836
Total assests							**1 442 280**
Segment liabilities*	**454 984**	**189 080**	**2 603**	**646 667**	**-**	**(83 374)**	**563 293**
Other disclosures:							
Capital expenditure	(35 193)	(19 860)	-	(55 053)	-	-	(55 053)
Impairment of non-financial assets	(959)	-	-	(959)	-	-	(959)

** short-term liabilities were allocated to assess segment*

(Data in PLN thousand, unless indicated otherwise)

Geographical segmets:

For the period from 1.01.2018 to 30.09.2018 *Unaudited*	**Continued operations**					
	Domestic	**Abroad**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Revenues						
Sales to external customers	818 459	278 713	1 097 172	-	-	1 097 172
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	737	2	739	-	(739)	-
Total segment revenues	**819 196**	**278 715**	**1 097 911**	**-**	**(739)**	**1 097 172**

For the period from 1.01.2017 to 30.09.2017 *Unaudited*	**Continued operations**					
	Domestic	**Abroad**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Revenues						
Sales to external customers	605 563	344 193	949 756	-	-	949 756
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	-	-	-	-	-	-
Total segment revenues	**605 563**	**344 193**	**949 756**	**-**	**-**	**949 756**

As at 30.09.2018 *Unaudited*	**Continued operations**					
	Domestic	**Abroad**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Operating assets	1 134 953	755 970	1 890 923	-	(241 541)	1 649 382
Segment liabilities*	631 239	192 736	823 975	-	(104 134)	719 841

** short-term liabilities were allocated to assess segment*

As at 31.12.2017 *Audited*	**Continued operations**					
	Domestic	**Abroad**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Operating assets	977 469	672 562	1 650 031	-	(217 587)	1 432 444
Segment liabilities*	476 153	170 514	646 667	-	(83 374)	563 293

** short-term liabilities were allocated to assess segment*

(Data in PLN thousand, unless indicated otherwise)

29. Contingent receivables and liabilities

Contingent receivables and liabilities are presented in the table below:

	30.09.2018 *Unaudited*	31.12.2017 *Audited*
Contingent receivables		
From related entities due to:	**84 062**	**79 285**
Received guarantees and sureties	83 216	76 107
Bills of exchange received as collateral	846	3 178
Total contingent receivables	**84 062**	**79 285**
From related entities due to:		
From other entities due to:	**2 646 958**	**2 645 100**
Provided guarantees and sureties	897 616	796 255
Promissory notes	507 276	485 219
Mortgages	181 627	149 039
Assignment of receivables	950 908	1 071 118
Assignment of rights under insurance policy	54 406	54 301
Security deposits	22 875	22 174
Other liabilities	32 250	66 994
Total contingent liabilities	**2 646 958**	**2 645 100**

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 out of the construction contracts performed (performance bonds, retention bonds and advance payment guarantees). Banks have a right of recourse against the Group. Promissory notes are a different form of collateral for the aforementioned bank guarantees.

As at September 30, 2018, except for the aforementioned contingent receivables and liabilities, the Group had contingent receivables in the amount of PLN 1,243 thousand (December 31, 2017: PLN 1,407 thousand) arising from the employment contracts signed with employees. If a manager fails to meet his or her obligations defined in Article 1, 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 the employment contracts signed with employees. As at September 30, 2018 - amounted to PLN 8,454 thousand (as compared to PLN 8,600 thousand as at December 31, 2017).

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 the 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 March 31, 2018 are sufficient to mitigate the recognised and measurable tax risk.

The Group recognises the right of perpetual usufruct of land acquired free of charge as operating lease (off- balance sheet item) in the amount of PLN 1,567 thousand.

30. Information on sureties for loans or borrowings and on guarantees granted by the Parent Company or its subsidiary

In the third quarter of 2018, neither the Parent Company nor its subsidiaries did grant any sureties for credits or loans or any guarantees to any entity or its subsidiary, whose total value of existing sureties and guarantees is significant.

31. Significant court cases and disputes

The Parent Company below indicates significant proceedings pending before a court or other body regarding its liabilities and receivables and its subsidiaries.

Proceedings concerning the Parent Company:

The case concerning reporting the liability from Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej in Warsaw

Trakcja S.A. in Warsaw merged with Przedsiębiorstwo Robót Kolejowych i Inżynieryjnych S.A. in Wrocław. As a result of this merger, the legal successor of both companies is Trakcja PRKiI S.A. in Warsaw. In connection with the announcement by the District Court of Warsaw-Praga Północ in Warsaw of the bankruptcy of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. (hereinafter referred to as the "PNI") with an option of composition, Przedsiębiorstwo Robót Komunikacyjnych i Inżynieryjnych S.A. in Wrocław provided a submission of claims of 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 Company's best knowledge, the list of claims towards PNI was drawn up. The claims of Trakcja PRKiI S.A. were recognised in the amount of PLN 10,569,163.16, including PLN 10,274,533.87 for the unpaid invoices and PLN 294,632.29 for the interest for delay in payment. The Company's receivables from contractual penalties and other claims in the total amount of PLN 44,956,834.35 were dismissed. The Company did not agree with that dismissal; therefore, an objection was submitted to the judge commissioner concerning the dismissal in the aforementioned scope. The court had rejected the objection; therefore the Company filed a complaint which was overruled. On June 8, 2015 the Company received a notice from the trustee in bankruptcy on the change in the bankruptcy procedure from the arrangement bankruptcy to the liquidation bankruptcy. The case is pending and its resolution date is difficult to predict.

Case against Leonhard Weiss International GmbH

As Leonhard Weiss International failed to respond to the statement including a debit note and a request for payment dated October 31, 2017, of which the Group informed in the consolidated report for the 9-month period ended on September 30, 2017 in Note 25 "Interests in joint ventures", the Parent Company decided to take the case to court.

The case against Leonhard Weiss International GmbH ("LWI") for payment due under the sale agreement of 50 % of shares in Bahn Technik Wrocław Sp. z o.o. The claim was served on the LWI, which sent a response to the statement of claim to the Company and the Court. 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) from the amount of PLN 7,500,000.00 from November 17, 2017 to the payment date,
2) from the amount of PLN 12,756,000.00 from December 8, 2017 to the payment date,
3) from the amount of PLN 295,495.00 from December 8, 2017 to the payment date.

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

Proceedings against PKP PLK S.A.

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

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

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

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

b) of additional works in connection with Contract No. 90/132/336/00/17000031/10/I/I dated November 29, 2010 for the "Design and implementation of the construction works at the railway line Kraków – Medyka – national border, at the section Sędziszów Małopolski – Rzeszów Zachodni under the project "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 August 27, 2018, the Company filed a lawsuit for payment against PKP PLK S.A. requiring 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 December 16, 2010 for "Designing and execution of construction works on the

(Data in PLN thousand, unless indicated otherwise)

Kraków - Medyka railway line - State border 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 stream), 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 October 6, 2017 to August 27, 2018. The case is at an early stage of the proceedings and its completion date is difficult to predict.

Proceedings regarding 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 64,083,535.19 (EUR 14,989,556,33). 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.

32. Information on dividends paid and declared

In the third quarter of 2018, Trakcja PRKiI S.A. did not pay any dividends.

On June 26, 2018 the Company's Annual General Meeting adopted a resolution, according to which the Company's profit for 2017 in the amount of PLN 32,039,476.84 would be allocated as follows:

- the amount of PLN 5,139,954.80 (i.e. PLN 0.1 per share) to pay dividends,

- the amount of PLN 26,899,522.04 to increase the supplementary capital.

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

The Annual General Meeting decided that the dividend date would be September 25, 2018 and that dividends would be paid on October 15, 2018.

The dividend was paid on October 15, 2018.

33. Information on related entities

In the third quarter of 2018, the Group companies did not make any significant transactions with their related entities on terms other than at arm's length. Transactions made by the Parent Company and its subsidiaries (related entities) are the arm's length transactions and their nature is a result of the current operations conducted by the Parent Company and its subsidiaries.

Please find below the totals of transactions made with related entities from January 1, 2018 to September 30, 2018:

Related entities	Period	Sale to related entities	Purchases from related entities
Shareholders of parent company:			
COMSA S.A.	1.01.2018 - 30.09.2018	4 222	1 711
	1.01.2017 - 30.09.2017	47 160	1 028
Total	**1.01.2018 - 30.09.2018**	**4 222**	**1 711**
	1.01.2017 - 30.09.2017	**47 160**	**1 028**

(Data in PLN thousand, unless indicated otherwise)

Please find below information on any receivables from and liabilities towards related entities as at September 30, 2018:

Related entities	Reporting date	Net receivables from related entities	Liabilities towards related entities
Shareholders of parent company:			
COMSA S.A.	30.09.2018	2 403	1 226
	31.12.2017	2 780	808
Total	**30.09.2018**	**2 403**	**1 226**
	31.12.2017	**2 780**	**808**

The Parent Company and its shareholder, COMSA S.A., have signed an agreement for granting to Trakcja PRKiI S.A. a licence for the entire technical know-how and trademark, as well as for providing non-material goods in the form of competences, industry knowledge and expert knowledge in terms of organization, operations, sales and technology of COMSA S.A. The agreement has been concluded at arm's length.

34. Significant events in the third quarter of 2018 and after the balance sheet date

Please find below a summary of significant events that took place in the third quarter of 2018.

Significant contracts	CR
On July 19, 2018 the Parent Company, acting as the Leader of the Consortium has signed a contract with the General Directorate of National Roads and Motorways with its registered office in Warsaw, covering the execution of construction works envisaged within the project of the development of a "Design and construction of the S61 express road Szczuczyn - Budzisko (Greek state) with the division into tasks: Task No. 2: section Ełk Południe junction - Wysokie junction (along with an outlet within national road 16)". The subject of the contract is the design and construction of the S61 expressway on the section from the Ełk Południe junction (without a junction) - to the Wysokie junction (no junction), about 20 km long with the outlet national road 16 from the Ełk Wschód junction - to the Elk ring bypass about 3.4 km. The net value of the contact is PLN 557.7 million. The planned share of the Parent is PLN 251.0 million net. The works are to be completed within 29 months beginning with the date of the conclusion of the agreement, excluding winter periods during the performance of works.	16/2018
On July 24, 2018 the Parent Company has signed two contracts with the PKP PLK S.A. with its registered office in Warsaw, covering the execution of design and construction works envisaged within the project of the development of "Construction of Metropolitan Railway in Szczecin with use of current existed sections of railway lines no. 406, 273, 351", which total net value amounts to PLN 481.2 million.	17/2018
On August 30, 2018 the Parent Company has signed a contract with PKP PLK S.A., covering the execution of construction works envisaged within the project of the development of a "Reconstruction of track systems along with accompanying infrastructure on the E59 railway line, Poznań Główny - Rokietnica section" under the project „Works on the E59 railway line on the section Poznań Główny - Szczecin Dąbie. Net value of the contract is PLN 292,2 million	18/2018

Other	CR
On July 3, 2018, the Parent Company received a notification from the shareholder Nationale-Nederlanden Otwarty Fundusz Emerytalny about a reduction in the number of shares held below 5% of votes in the general meeting of the Company.	15/2018

(Data in PLN thousand, unless indicated otherwise)

Please find below a summary of significant events that took place after the balance sheet date:

Other	**CR**
On October 16, 2018, the Management Board of the Company received a notification from PZU SA Pension Society (PTE PZU SA) acting on behalf of the PZU Open Pension Fund "Złota Jesień" (OFE PZU), that due to the closure of Pekao Otwarty Fundusz Emerytalny (Pekao OFE) on October 12, 2018, resulting in the transfer of all Pekao OFE assets on that day to PZU Open Pension Fund and entering PZU's Open Pension Fund into all rights and obligations of Pekao OFE, until now the share of OFE PZU in the total number of votes in the Company increased and exceeded the threshold of 10% of the total number of votes.	19/2018
On October 26, 2018, the Management Board adopted resolutions on the intention to sell selected real property and use obtained from the sale funds to optimize the structure of external financing by financing the demand for working capital to a larger extent with own funds.	20/2018
On October 29, 2018, Supervisory Board of the Company agreed to enter into property sale agreements indicated in CR no. 20/2018.	21/2018
On October 30, 2018, the Management Board of the Company convened the Extraordinary General Meeting of Shareholders of Trakcja PRKiI S.A. on November 30, 2018 at 9 am.	22/2018

(Data in PLN thousand, unless indicated otherwise)

IV. QUARTERLY FINANCIAL INFORMATION

STANDALONE INCOME STATEMENT

	1.01.2018 - 30.09.2018	01.07.2018- 30.09.2018	1.01.2017 - 30.09.2017	01.07.2017- 30.09.2017
	Unaudited		*Unaudited*	
Continued operations				
Sales revenue	729 798	317 518	553 768	231 761
Cost of goods sold	(716 747)	(307 859)	(532 622)	(227 395)
Gross profit (loss) on sales	**13 051**	**9 659**	**21 146**	**4 366**
Cost of sales, marketing and distribution	(2 000)	(621)	(1 769)	(688)
General and administrative costs	(19 075)	(5 914)	(15 910)	(5 234)
Other operating revenues	804	134	2 980	382
Other operating costs	(2 031)	(929)	(1 189)	(382)
Operating profit (loss)	**(9 251)**	**2 329**	**5 258**	**(1 556)**
Financial revenues	13 521	176	22 932	1 230
Financial costs	(5 463)	(2 370)	(4 409)	(846)
Gross profit (loss)	**(1 193)**	**135**	**23 781**	**(1 172)**
Income tax	2 467	(217)	(819)	631
Net profit (loss) from continued operations	**1 274**	**(82)**	**22 962**	**(541)**
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	**1 274**	**(82)**	**22 962**	**(541)**
Profit per share attributable to shareholders in the period (PLN per share)				
- basic	0,02	(0,01)	0,45	(0,01)
- diluted	0,02	(0,01)	0,45	(0,01)

(Data in PLN thousand, unless indicated otherwise)

STANDALONE STATEMENT OF COMPREHENSIVE INCOME

	1.01.2018 - 30.09.2018	01.07.2018- 30.09.2018	1.01.2017 - 30.09.2017	01.07.2017- 30.09.2017
	Unaudited		*Unaudited*	
Net profit for the period	**1 274**	**(82)**	**22 962**	**(541)**
Other comprehensive income:				
Other comprehensive income that will not be reclassified into profit or loss under certain conditions:	**-**	**-**	**(79)**	**-**
Actuarial gains/(losses)	-	-	(79)	-
Other comprehensive income that will be reclassified into profit or loss under certain conditions:	**(31)**	**11**	(9)	(4)
Foreign exchange differences on translation of foreign operations	(31)	11	(9)	(4)
Total other comprehensive income	**(31)**	**11**	**(88)**	**(4)**
Total comprehensive income for the period	**1 243**	**(71)**	**22 874**	**(545)**

(Data in PLN thousand, unless indicated otherwise)

STANDALONE BALANCE SHEET

	30.09.2018 *Unaudited*	31.12.2017 *Audited*
ASSETS		
Non-current assets	**692 631**	**664 541**
Tangible non-current assets	167 607	141 389
Intangible assets	51 924	52 961
Investment properties	17 174	17 174
Investments in subsidiaries	436 241	436 241
Other financial assets	4 354	5 507
Deferred tax assets	6 380	3 811
Accruals	8 951	7 458
Current assets	**562 916**	**444 634**
Inventory	69 836	53 105
Trade and other receivables	252 427	230 975
Income tax receivables	-	134
Other financial assets	12 922	10 318
Cash and cash equivalents	2 153	20 618
Accruals	11 882	7 749
Construction contracts and advances paid towards contracts being performed	210 634	118 673
Assets held for sale	3 062	3 062
TOTAL ASSETS	**1 255 547**	**1 109 175**
Equity and liabilities		
Equity	**627 307**	**631 598**
Share capital	41 120	41 120
Share premium account	309 984	309 984
Revaluation reserve	5 807	5 804
Other capital reserves	269 146	242 643
Retained earnings	1 274	32 040
Foreign exchange differences on translation of foreign operations	(24)	7
Total equity	**627 307**	**631 598**
Long-term liabilities	**72 703**	**51 178**
Interest-bearing loans and borrowings	67 108	44 508
Provisions	3 113	4 035
Liabilities due to employee benefits	2 482	2 635
Short-term liabilities	**555 537**	**426 399**
Interest-bearing loans and borrowings	126 603	19 737
Trade and other liabilities	317 414	252 084
Provisions	7 000	7 316
Liabilities due to employee benefits	8 991	8 099
Accruals	519	366
Construction contracts and advances received towards contracts being performed	95 010	138 797
TOTAL EQUITY AND LIABILITIES	**1 255 547**	**1 109 175**

(Data in PLN thousand, unless indicated otherwise)

STANDALONE STATEMENT OF CASH FLOWS

	1.01.2018 - 30.09.2018 Unaudited	1.01.2017 - 30.09.2017 Unaudited
Cash flows from operating activities		
Gross profit from continued operations	**(1 193)**	**23 781**
Adjustments for:	**(116 805)**	**11 465**
Depreciation	10 724	10 351
FX differences	(101)	126
Net interest and dividends	(8 969)	(19 388)
Profit on investment activities	(44)	69
Change in receivables	(21 452)	67 833
Change in inventory	(16 731)	(32 266)
Change in liabilities, excluding loans and borrowings	62 007	(49 456)
Change in prepayments and accruals	(5 473)	(11 654)
Change in provisions	(1 239)	(21 903)
Change in construction contracts and advances towards contracts being performed	(135 748)	69 396
Income tax paid	133	(2 229)
Other	97	602
Foreign exchange differences on translation of foreign operations	(9)	(16)
Net cash flows from operating activities	**(117 998)**	**35 246**
Cash flows from investment activities		
Sale (purchase) of intangible assets and tangible non-current assets	(15 783)	(7 007)
- acquisition	(15 922)	(13 016)
- sale	139	6 009
Financial assets	624	(1 617)
- granted or acquired	4 368	2 153
- repaid	(3 744)	(3 770)
Loans	(2 000)	2 000
- granted	-	3 000
- repaid	(2 000)	(1 000)
Dividend received	11 119	20 685
Interest received	-	243
Net cash flows from investment activities	**(6 040)**	**14 304**
Cash flows from financial activities		
Proceeds on account of taken borrowings and loans	122 713	9 346
Repayment of borrowings and loans	(6 388)	(4 618)
Interests and commissions paid	(4 408)	(2 749)
Inflows (outflows) due to other financial liabilities	(21)	(197)
Payment of liabilities under financial lease agreements	(6 323)	(6 638)
Dividends paid to shareholders	-	(25 700)
Net cash flows from financial activities	**105 573**	**(30 556)**
Total net cash flows	**(18 465)**	**18 994**
Cash at start of period	**20 618**	**18 820**
Cash at end of period	**2 153**	**37 814**

(Data in PLN thousand, unless indicated otherwise)

STANDALONE STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium account	Revaluation reserve	Other reserve capitals		Foreign exchange differences on translation of foreign operations	Retained earnings	Total equity
				Actuarial gains/ (losses)	Results from previous years			
As at 1.01.2018 Audited	**41 120**	**309 984**	**5 804**	**391**	**242 252**	**7**	**32 040**	**631 598**
IFRS 9 implementation	-	-	-	-	(401)	-	-	(401)
As at 1.01.2018 after adjustments	**41 120**	**309 984**	**5 804**	**391**	**241 851**	**7**	**32 040**	**631 197**
Net profit for the period	-	-	-	-	-	-	1 274	1 274
Other comprehensive income	-	-	-	-	-	(31)	-	(31)
Distribution of profit	-	-	-	-	26 900	-	(26 900)	-
Divided payment	-	-	-	-	-	-	(5 140)	(5 140)
Other changes	-	-	3	-	4	-	-	7
As at 30.09.2018 Unaudited	**41 120**	**309 984**	**5 807**	**391**	**268 755**	**(24)**	**1 274**	**627 307**
As at 1.01.2017 Audited	**41 120**	**309 984**	**5 800**	**470**	**239 247**	**(9)**	**28 699**	**625 311**
Net profit for the period	-	-	-	-	-	-	22 962	22 962
Other comprehensive income	-	-	-	(79)	-	(9)	-	(88)
Distribution of profit	-	-	-	-	2 999	-	(2 999)	-
Divided payment	-	-	-	-	-	-	(25 700)	(25 700)
Other	-	-	3	-	5	-	-	8
As at 30.09.2017 Unaudited	**41 120**	**309 984**	**5 803**	**391**	**242 251**	**(18)**	**22 962**	**622 493**

(Data in PLN thousand, unless indicated otherwise)

	Share capital	Share premium account	Revaluation reserve	Other reserve capitals		Foreign exchange differences on translation of foreign operations	Retained earnings	Total
				Actuarial gains/ (losses)	Results from previous years			
As at 1.01.2017 Audited	**41 120**	**309 984**	**5 800**	**470**	**239 247**	**(9)**	**28 699**	**625 311**
Net profit for the period	-	-	-	-	-	-	32 040	32 040
Other comprehensive income	-	-	-	(79)	-	16	-	(63)
Distribution of profit	-	-	-	-	2 999	-	(2 999)	-
Divided payment	-	-	-	-	-	-	(25 700)	(25 700)
Other changes	-	-	4	-	6	-	-	10
As at 31.12.2017 Audited	**41 120**	**309 984**	**5 804**	**391**	**242 252**	**7**	**32 040**	**631 598**

V. NOTES TO THE CONDENSED STANDALONE FINANCIAL STATEMENTS

1. Analysis of the financial performance of Trakcja PRKiI S.A. for the third quarter of 2018

During Q3 ended on 30 September 2018, Trakcja PRKiI S.A. generated revenue on sales in the amount of PLN 317,518 thousand, which constitutes a growth of 37,0% in relation to the analogical period of 2017. The cost of goods sold during Q3 2018 increased by PLN 80,464 thousand, i.e. by 35,4%, and amounted to PLN 307,859 thousand. In Q3 2018 the Company reported gross profit on sales in the amount of PLN 9,659 thousand, which is an increase by PLN 5,293 thousand.

The margin of the gross result on sales in Q3 2018 reached 3,0% and increased by 1.1 p.p. in comparison to the margin in Q3 2017. The margin growth is due to the relatively low level of the results for the third quarter of last year. The details have been described in the consolidated quarterly report for the period of 9 months ended 30 September 2017.

In the third quarter of 2018 overhead costs reached PLN 5,914 thousand and grew by 13,0%, i.e. by PLN 680 thousand in regard to the comparable period. The costs of sales, marketing and distribution reached PLN 621 thousand in the analysed period and dropped by PLN 67 thousand in comparison to the analogical period of the previous year.

The balance of other operating activity reached a negative value of PLN 795 thousand. The loss decreased by PLN 795 thousand in relation to the analogical period of the comparable period. For the period from 1 July 2018 to 30 September 2018 the Company reported a profit on operations in the amount of PLN 2,329 thousand. The result on operations grew by PLN 3,885 thousand in comparison to the result on operations for Q3 2017, when the profit on operations achieved PLN 1,556 thousand.

In the third quarter of 2018 the Company's financial revenue achieved PLN 176 thousand and decreased by PLN 1,054 thousand in comparison to financial revenue for Q3 2017. Financial costs rose by PLN 1,524 thousand and totaled PLN 2,370 thousand due to debt increase.

For the period from 1 July 2018 to 30 September 2018 the Company reported gross profit in the amount of PLN 135 thousand. Income tax in the third quarter of 2018 amounted to PLN 217 thousand, which constitutes an increase compared to the same period of the previous year by PLN 848 thousand. The Company's net loss for the period from 1 July 2018 to 30 September 2018 totaled PLN 82 thousand and it was higher by PLN 459 thousand in relation to the analogical period of the previous year, when there was a net loss in the amount of PLN 541 thousand.

At the end of Q3 2018, the Company's balance sheet total amounted to PLN 1,255,547 thousand and was higher from the 2017 balance sheet total by PLN 146,372 thousand.

Fixed assets increased by PLN 28,090 thousand and reached the value of PLN 692 631 thousand. The increase in non-current assets was mainly due to the growth in tangible non-current assets by PLN 26,218 thousan which as at September 30, 2018 was PLN 167,607 thousand. Tangible fixed assets rose primarily due to the construction of a modern equipment base in Bieńkowice and due to investments in railway and road equipment.

Current assets, in comparison to the balance as at 31 December 2017, increased by PLN 118,282 thousand, what constitues a growth by 26,6%, and amounted to PLN 562,916 thousand. The increase was mainly due to the rise in construction contracts and advances paid toward contracts being performed by PLN 91,961 thousand, which as at September 30, 2018 was PLN 210,634 thousand. The balance of cash and cash equivalents dropped by an amount of PLN 18,465 thousand, i.e. by 89.6%, and amounted to PLN 2,153 thousand as at 30 September 2018.

The Company's equity as at 30 September 2018 has decreased by PLN 4,291 thousand in comparison to the balance as at 31 December 2017. The decrease was mainly due to the adoption of a resolution on the payment of a dividend in the amount of PLN 5,140 thousand (in accordance with the resolution of the General Meeting of June 26, 2018).

(Data in PLN thousand, unless indicated otherwise)

Long-term liabilities increased, reaching as at 30 September 2018 the value of PLN 72,703 thousand and grew by PLN 21,525 thousand compared to December 31, 2017. Short-term liabilities achieved PLN 555,537 thousand and rose by 30.3%, i.e. by PLN 129,138 thousand related to the end of the previous year. Among the short-term liabilities the highest increase was recorded by interest-bearing loans and borrowings that amounted to PLN 126,603 thousand and grew by PLN 106,866 thousand.

The Company started the year 2018 with cash balance of PLN 20,618 thousand, whereas the 9-month period ended with the balance of cash at PLN 2,153 thousand. Net cash flow for 9 months of 2018 was negative and amounted to PLN 18,465 thousand, which constitutes a drop by PLN 37,459 thousand in relation to the analogical period of 2017.

2. Seasonality and cyclicality

The sale of the construction and installation, renovation, as well as road and rail services in Poland is of a cyclical nature above all due to the weather conditions. The highest revenues are usually generated in the third and fourth quarters and the lowest in the first quarter.

3. Contingent receivables and liabilities

Contingent receivables and liabilities are presented in the table below:

	30.09.2018 *Unaudited*	31.12.2017 *Audited*
Contingent receivables		
From related entities due to:	**82 039**	**78 389**
Received guarantees and sureties	81 193	75 212
Bills of exchange received as collateral	846	3 177
Total contingent receivables	**82 039**	**78 389**
Contingent liabilities		
From related entities due to:	**4 900**	**-**
Provided guarantees and sureties	4 900	-
From other entities due to:	**2 374 333**	**2 313 021**
Provided guarantees and sureties	809 142	701 044
Promissory notes	499 011	481 638
Mortgages	129 000	99 000
Assignment of receivables	837 399	897 275
Assignment of rights under insurance policy	47 422	47 305
Security deposits	20 109	19 765
Other liabilities	32 250	66 994
Total contingent liabilities	**2 379 233**	**2 313 021**

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 Company as collateral for their claims against the Company arising out of the construction contracts performed (performance bonds, retention bonds and advance payment guarantees). Banks have a right of recourse against the Company. Promissory notes are a different form of collateral for the aforementioned bank guarantees.

As at September 30, 2018, except for the aforementioned contingent receivables and liabilities, the Company had contingent receivables in the amount of PLN 1,243 thousand (as compared to PLN 1,407 thousand as at December 31, 2017) arising from the employment contracts signed with employees. If a manager fails to meet his or her obligations defined in Article 1 of the Non-Competition Agreement, he or she will pay, immediately and without a termination notice or any demand issued by the Company, a contractual penalty in the amount equal to the PLN equivalent of EUR 25,000 for each failure and the amount equal to the PLN equivalent of EUR 1,000 for each day in which such a failure occurs or continues.

The contingent liabilities arising from employment contracts with employees were at PLN 4,897 thousand as at September 30, 2018 (PLN 5,554 thousand as at December 31, 2017).

Tax settlements and other fields of business subject to regulations (for example, customs or foreign currency matters) may be subject to inspections by administrative authorities entitled to impose high penalties and sanctions. The lack of reference to the well-established legal regulations in Poland results in the legislation in force being ambiguous and inconsistent. Frequent differences in opinions as to the legal interpretation of tax regulations, both within the state authorities themselves and between such authorities and business entities, create conflicts and uncertainty. Such events result in the tax risk in Poland being much higher than in countries with 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 the tax was paid. As a result of the inspections carried out, any current tax settlements of the Company may be increased by additional tax liabilities. In the Company's opinion, the provisions recognised as at September 30, 2018 are sufficient to mitigate the recognised and measurable tax risk.

The Company recognises the right of perpetual usufruct of land acquired free of charge as operating lease (off-balance sheet item) in the amount of PLN 1,567 thousand.

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

In the period covered by the condensed financial statements, the following changes to the accounting principles and principles of drawing up financial statements have been introduced:

• **IFRS 9 "Financial Instruments"** - IFRS 9 "Financial Instruments" introduces amendments with regard to recognising and measuring financial assets, principles of financial assets impairment, as well as modifies the approach to the hedge accounting.

Classification, measurement and impairment - the standard introduces a new approach to the financial assets classification which depends on the cash flow characteristics (SPPI test) and a business model connected with given assets, as well as a new model of impairment stipulated on the grounds of expected losses, requiring recognising expected credit losses on an ongoing basis.

Hedge accounting – the standard introduces the possibility to use a reformed hedge accounting model with extended requirements regarding risk management disclosures. The new model constitutes a significant amendment to hedge accounting aimed at adjusting accounting principles to practical risk management.

Classification

IFRS 9 classifies financial assets to the following categories:

- measurement at amortised cost;
- measurement at fair value through other comprehensive income;
- measurement at fair value through profit or loss.

Recognition

The Company recognises debt financial assets in a relevant category depending on the business model of financial assets management and on the characteristics of contractual cash flows for a given financial asset (on the grounds of the SPPI test).

Financial assets measured at amortised cost

The Company classifies accounts receivable due to deliveries and services and other accounts receivable, bank guarantees' securities, granted loans, financial assets due to a licence agreement as well as cash and cash equivalents, as assets measured at amortised cost.

(Data in PLN thousand, unless indicated otherwise)

After initial recognition, accounts receivable due to deliveries and services and other accounts receivable are recognised at amortised cost with the use of the effective interest rate method, with a consideration of impairment write-offs, whereas, accounts receivable due to deliveries and services and other accounts receivable with maturity date shorter than 12 months as of the recognition day (i.e. not including a financing element) are not discounted and are measured at nominal value.

Financial assets measured at fair value

The Company does not have capital instruments classified under IFRS 9.

Impairment

IFRS 9 introduces a new approach to estimate impairment of financial assets measured at amortised cost or at fair value through other comprehensive income (with an exception of capital investment and contractual assets). The impairment model is based on the calculation of expected losses as opposed to the previously used model under IAS 39, which was based on the incurred losses concept. The most significant financial assets' item in the Company's financial statement, which is governed by new principles of calculating expected credit losses, comprises trade receivables due to deliveries and services.

With regard to infrastructural entities, as on each balance sheet day the Company individually assesses expected losses on recognised amounts of accounts receivable and probability of existence thereof. This assessment is conducted on the grounds of an estimated result of negotiations in cases of disputes. With regard to other entities, the Company has used a model of group assessment of expected losses. For the purposes of estimating expected credit loss the Company uses historical levels of credit losses depending on the overdue periods corrected with current expectations regarding the evolution of these factors in the future. Therefore, as on 1 January 2018, impairment write-offs (after consideration of the deferred tax) decreased the Company's share capital by the amount of PLN 266 thousand in correspondence with increasing the balance sheet value of accounts receivable due to deliveries and services and other accounts receivable.

The table below presents the impact of implementing IFRS 9 on the amendment of classification and measurement of the Group's financial assets as on January 1, 2018:

Financial instrument	Classification		Balance sheet value	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Deposits in bank guarantees	held to maturity date	amortised cost	14 813	13 745
Loans granted and own receivables	held to maturity date	amortised cost	1 012	1 012
Trade receivables and other receivables	loans and receivables	amortised cost	230 975	231 235
Cash and cash equivalents	loans and receivables	amortised cost	20 618	20 618

Capital instruments are recognised in compliance with IAS 27 according to the purchase price decreased by the impairment.

The Company classifies financial liabilities to the following categories:

- measurement at amortised cost;
- measurement at fair value through profit or loss;
- hedge financial instruments.

With regard to the entry into force of IFRS 9 no amendments were introduced to the classification of the Company's financial liabilities, therefore, it has no influence on the standalone financial statement.

Impact on the standalone financial statement

The Company applied IFRS 9 retrospectively for periods starting past January 1, 2018 without transforming comparable data. Differences resulting from the amendment to the financial assets measurement as on the day of the first application of IFRS 9 have been recognised in other reserve capitals.

With regard to the recognition under IFRS 9, as on January 1, 2018, share capital was decreased by PLN 401K with a decrease in the balance sheet value of relevant items. This amount had been calculated on the grounds of the new model of impairment stipulated on the grounds of expected losses, requiring recognising expected credit losses on an ongoing basis.

(Data in PLN thousand, unless indicated otherwise)

The impact of changes on selected balance sheet items is presented below:

	31.12.2017	*IFRS 9 influence*	1.01.2018
ASSETS			
Non-current assets	**664 541**	**(972)**	**663 569**
Other financial assets	5 507	(1 068)	4 439
Deferred tax assets	3 811	96	3 907
Current assets	**444 634**	**260**	**444 894**
Trade and other receivables	230 975	260	231 235
TOTAL ASSETS	**1 109 175**	**(712)**	**1 108 463**
Equity and liabilities			
Equity	**631 598**	**(401)**	**631 197**
Other capital reserves	242 643	(401)	242 242
Total equity	**631 598**	**(401)**	**631 197**
			-
Long-term liabilities	**51 178**	**-**	**51 178**
Short-term liabilities	**426 399**	**(311)**	**426 088**
Trade and other liabilities	252 084	(311)	251 773
TOTAL EQUITY AND LIABILITIES	**1 109 175**	**(712)**	**1 108 463**

IFRS 15 “Revenue from Contracts with Customers”

As of January 1, 2018, IFRS 15 is binding and it has replaced IAS 11 “Construction Contracts” and IAS 18 “Revenues”. In compliance with IFRS 15 recognition of revenues should present the transaction of transferring goods or services onto the customer (the Contracting Authority) in the amount reflecting the value of remuneration expected by the entity in exchange for goods or services.

The IFRS 15 standard introduced a five step model of recognising revenues: 1. Identification of a contract with a customer 2. Identification of performance obligations 3. Determining the transaction price 4. Allocation of the transaction price to separate performance obligations 5. Recognition of revenue as each performance obligation is satisfied.

The Company analysed the contents of sales contracts concluded with customers (construction contracts), in order to identify differences resulting from the implementation of IFRS 15 and recognising revenues in compliance with the aforementioned five step model.

As a result of conducted works, the Company stated a lack of a significant impact of implementing IFRS 15 on financial statement and has not introduced thereto any corrections due to the implementation of IFRS 15 as on January 1, 2018.

With regard to the implementation of IFRS 15 the Company updated the accounting policy in the scope of recognising revenues in order to adjust it to IFRS 15. The Company has introduced IFRS 15 in compliance with the modified retrospective method.

As of January 1, 2018 the Company recognises revenues due to the provision of unfinished construction services in compliance with the 5 step model and applies the input-based method. In the Parent Company’s Management Board’s opinion the input-based method is the best method adjusted to stipulating revenues from long-term contracts.

With an exception of amendments resulting from applying IFRS 9 and IFRS 15 in the period covered by the financial statement, no other amendments have been made to the accounting principles and principles of drawing up financial statement in comparison with the ones recognised in the Company’s financial statement for 2017, which was published on March 28, 2018.

Marcin Lewandowski	Paweł Nogalski
President of the Management Board	Vice-President of the Management Board
Marek Kacprzak	Maciej Sobczyk
Vice-President of the Management Board	Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

The person responsible for preparing the report:

Sławomir Krysiński

Head of Financial Reporting Trakcja Group

Warsaw, November 15, 2018