



TRAKCJA CAPITAL GROUP

CONSOLIDATED QUARTERLY REPORT
FOR THE 9-MONTH PERIOD ENDED SEPTEMBER 30, 2017

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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 2017 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, 2017 to September 30, 2017, which shows a net profit of PLN **8,303** thousand.
2. Consolidated statement of comprehensive income for the period from January 1, 2017 to September 30, 2017, which shows the total comprehensive income of PLN **28** thousand.
3. Consolidated balance sheet as at September 30, 2017, which shows the total assets and total equity and liabilities of PLN **1,450,655** thousand.
4. Consolidated statement of cash flows for the period from January 1, 2017 to September 30, 2017, which shows a decrease in the total net cash flows by PLN **72,041** thousand.
5. Consolidated statement of changes in equity for the period from January 1, 2017 to September 30, 2017, which shows a decrease in equity by PLN **26,462** thousand.
6. Notes.

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

Jarosław Tomaszewski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Warsaw, November 14, 2017

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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:

Financial year ended	Average exchange rate in the period*	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
30.09.2017 r.	4,2566	4,1737	4,4157	4,3091
31.12.2016 r.	4,3757	4,2355	4,5035	4,4240
30.09.2016 r.	4,3688	4,2355	4,4987	4,3120

* 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 30.09.2017		9 month period ended 30.09.2016	
	TPLN	TEUR	TPLN	TEUR
Sales revenues	949 756	223 125	887 563	203 160
Cost of goods sold	(898 370)	(211 053)	(778 580)	(178 215)
Gross profit (loss) on sales	51 386	12 072	108 983	24 946
Operating profit (loss)	14 129	3 319	59 227	13 557
Gross profit (loss)	10 770	2 530	55 638	12 735
Net profit (loss) from continued operations	8 303	1 951	47 319	10 831
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	8 303	1 951	47 319	10 831

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:

	30.09.2017		31.12.2016	
	TPLN	TEUR	TPLN	TEUR
Non-current assets	743 311	172 498	721 725	163 139
Current assets	707 344	164 151	675 008	152 578
Total assets	1 450 655	336 649	1 396 733	315 717
Equity	749 505	173 935	775 967	175 399
Long-term liabilities	134 566	31 228	153 550	34 709
Short-term liabilities	566 584	131 486	467 216	105 609
Total equity and liabilities	1 450 655	336 649	1 396 733	315 717

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 30.09.2017		9 month period ended 30.09.2016	
	TPLN	TEUR	TPLN	TEUR
Cash flows from operating activities	(10 450)	(2 455)	(185 913)	(42 555)
Cash flows from investment activities	(23 797)	(5 591)	(15 493)	(3 546)
Cash flows from financial activities	(37 794)	(8 879)	13 692	3 134
Total net cash flows	(72 041)	(16 925)	(187 714)	(42 967)

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.

	30.09.2017		30.09.2016	
	TPLN	TEUR	TPLN	TEUR
Cash at start of period	146 360	33 083	251 317	58 974
Cash at end of period	74 319	17 247	63 603	14 750

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, 2015 was PLN 4.2615.

II. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	1.01.2017 - 30.09.2017	01.07.2017 - 30.09.2017	1.01.2016 - 30.09.2016	01.07.2016 - 30.09.2016
	<i>Unaudited</i>		<i>Unaudited</i>	
Continued operations				
Sales revenue	949 756	412 108	887 563	408 734
Cost of goods sold	(898 370)	(390 371)	(778 580)	(356 098)
Gross profit on sales	51 386	21 737	108 983	52 636
Cost of sales, marketing and distribution	(4 599)	(1 625)	(4 424)	(1 112)
General and administrative costs	(35 511)	(12 449)	(42 967)	(13 729)
Other operating revenues	4 371	802	5 639	955
Other operating costs	(1 518)	(455)	(7 702)	(5 089)
Share of profit of joint venture	-	-	(302)	382
Operating profit	14 129	8 010	59 227	34 043
Financial revenues	4 098	2 133	3 425	1 149
Financial costs	(7 457)	(1 802)	(7 014)	(2 072)
Gross profit	10 770	8 341	55 638	33 120
Income tax	(2 467)	(1 127)	(8 319)	(4 464)
Net profit from continued operation	8 303	7 214	47 319	28 656
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	8 303	7 214	47 319	28 656
Attributable to:				
Shareholders of parent entity	8 014	7 097	46 235	28 082
Non-controlling interests	289	117	1 084	574
Profit per share attributable to shareholders in the period (PLN per share)				
- basic	0,16	0,14	0,90	0,55
- diluted	0,16	0,14	0,90	0,55

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1.01.2017 - 30.09.2017	01.07.2017 - 30.09.2017	1.01.2016 - 30.09.2016	01.07.2016 - 30.09.2016
	<i>Unaudited</i>		<i>Unaudited</i>	
Net profit for the period	8 303	7 214	47 319	28 656
Other comprehensive income:				
Other comprehensive income that will not be reclassified into profit or loss under certain conditions:				
Actuarial gains/(losses)	(21)	(5)	1 156	611
Other comprehensive income that will be reclassified to profit or loss:	(8 254)	5 847	1 237	(8 404)
Foreign exchange differences on translation of foreign operations	(9 285)	5 674	3 373	(8 163)
Cash flow hedging instruments	1 031	173	(2 136)	(241)
Total other comprehensive income	(8 275)	5 842	2 393	(7 793)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	28	13 056	49 712	20 863

CONSOLIDATED BALANCE SHEET

	Note	30.09.2017 Unaudited	31.12.2016 Audited
ASSETS			
Non-current assets		743 311	721 725
Tangible non-current assets		269 591	247 489
Intangible assets		54 072	55 291
Goodwill from consolidation		333 379	337 855
Investment properties		20 962	21 226
Investments in other units		32	25
Other financial assets		45 570	46 502
Deferred tax assets		10 860	10 707
Accruals		8 845	2 630
Current assets		707 344	675 008
Inventory		116 662	75 861
Trade and other receivables		358 569	399 586
Income tax receivables		6 954	-
Other financial assets		9 251	8 660
Cash and cash equivalents		74 331	148 799
Accruals		12 670	6 019
Construction contracts and advances paid towards contracts being performed		128 907	36 083
TOTAL ASSETS		1 450 655	1 396 733
Equity and liabilities			
Equity (attributable to shareholders of parent entity)		744 725	771 137
Share capital		41 120	41 120
Share premium account		309 984	309 984
Revaluation reserve		5 765	5 765
Other capital reserves		362 149	332 659
Retained earnings		8 014	54 685
Foreign exchange differences on translation of foreign operations		17 693	26 924
Non-controlling interests		4 780	4 830
Total equity		749 505	775 967
Long-term liabilities		134 566	153 550
Interest-bearing loans and borrowings		96 872	100 666
Provisions	23	16 996	27 650
Liabilities due to employee benefits		6 387	11 134
Provision for deferred tax		9 638	8 068
Derivative financial instruments		4 608	5 957
Other financial liabilities		65	75
Short-term liabilities		566 584	467 216
Interest-bearing loans and borrowings		35 570	22 003
Trade and other liabilities		306 376	309 988
Provisions	23	14 779	35 353
Liabilities due to employee benefits		14 889	11 424
Income tax liabilities		-	4 922
Derivative financial instruments		992	1 018
Accruals		371	361
Construction contracts and advances received towards contracts being performed		193 154	80 432
Advances received towards flats		453	1 715
TOTAL EQUITY AND LIABILITIES		1 450 655	1 396 733

CONSOLIDATED STATEMENT OF CASH FLOWS

	1.01.2017 - 30.09.2017 <i>Unaudited</i>	1.01.2016 - 30.09.2016 <i>Unaudited</i>
<i>Cash flows from operating activities</i>		
Gross profit from continued operations	10 770	55 638
Adjustments for:	(21 220)	(241 551)
Depreciation	22 009	17 357
FX differences	(549)	422
Net interest and dividends	4 306	3 861
Profit on investment activities	(3 105)	(4 835)
Share of profits in joint venture	-	302
Change in receivables	69 029	(232 433)
Change in inventory	(40 968)	(30 477)
Change in liabilities, excluding loans and borrowings	(11 736)	13 711
Change in prepayments and accruals	(39 695)	(1 896)
Change in provisions	(26 911)	6 388
Change in construction contracts	19 315	(9 646)
Change in financial derivatives	(1 191)	2 491
Income tax paid	(6 687)	(9 043)
Other	(973)	565
Foreign exchange differences on translation of foreign operations	(4 064)	1 682
Net cash flows from operating activities	(10 450)	(185 913)
<i>Cash flows from investment activities</i>		
Sale (purchase) of intangible assets and tangible non-current assets	(27 485)	(25 589)
- acquisition	(35 363)	(29 920)
- sale	7 878	4 331
Sale (purchase) of shares	(7)	-
- acquisition	(7)	-
Financial assets	3 795	9 932
- sold or repaid	7 859	13 570
- granted or acquired	(4 064)	(3 638)
Loans	(210)	-
- repaid	(210)	-
Interest received	110	164
Net cash flows from investment activities	(23 797)	(15 493)
<i>Cash flows from financial activities</i>		
Proceeds on account of taken borrowings and loans	14 538	68 674
Repayment of borrowings and loans	(12 163)	(24 609)
Interest paid	(5 221)	(4 473)
Payment of liabilities under financial lease agreements	(8 670)	(7 511)
Inflows (outflows) income from other financial liabilities	-	(331)
Dividends paid to Parent Entity shareholders	(25 700)	(17 476)
Dividends paid to non-controlling shareholders	(382)	(582)
Other	(196)	-
Net cash flows from financial activities	(37 794)	13 692
Total net cash flows	(72 041)	(187 714)
Cash at start of period	146 360	251 317
Cash at end of period	74 319*	63 603

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to shareholders of parent entity

	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
				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	-	-	-	-	-	-	-	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
As at 1.01.2016 Audited	41 120	309 984	6 178	(3 598)	(1 363)	304 746	15 071	50 203	722 341	3 950	726 291
Net profit for the period	-	-	-	-	-	-	-	46 235	46 235	1 084	47 319
Other comprehensive income	-	-	-	(1 579)	1 154	-	3 353	-	2 928	(535)	2 393
Distribution of profit	-	-	-	-	-	32 727	-	(32 727)	-	-	-
Dividend payment	-	-	-	-	-	-	-	(17 476)	(17 476)	-	(17 476)
Payment of dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(582)	(582)
Other changes	-	-	-	-	-	13	-	-	13	5	18
As at 30.09.2016 Unaudited	41 120	309 984	6 178	(5 177)	(209)	337 486	18 424	46 235	754 041	3 922	757 963

Equity attributable to shareholders of parent entity											
	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
				Hedging instruments	Actuarial gains/(losses)	Results from previous years					
As at 1.01.2016 Audited	41 120	309 984	6 178	(3 598)	(1 363)	304 746	15 071	50 203	722 341	3 950	726 291
Net profit for the period	-	-	-	-	-	-	-	54 685	54 685	1 647	56 332
Other comprehensive income	-	-	(413)	(564)	959	-	11 853	-	11 835	(132)	11 703
Payment of dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(580)	(580)
Distribution of profit	-	-	-	-	-	32 727	-	(32 727)	-	-	-
Dividend payment	-	-	-	-	-	-	-	(17 476)	(17 476)	-	(17 476)
Other changes	-	-	-	-	-	(248)	-	-	(248)	(55)	(303)
As at 31.12.2016 Audited	41 120	309 984	5 765	(4 162)	(404)	337 225	26 924	54 685	771 137	4 830	775 967

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, 2017.

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

Trakcja PRKił 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 of Shareholders 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., according to the pooling of interest method, as at August 31, 2009. The companies were effectively merged at the acquisition, 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 of Shareholders 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 of Shareholders on December 12, 2012.

On December 19, 2013 the District Court of the City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, registered the merger of Trakcja S.A. as the 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 PRKił S.A. The above change was registered pursuant to Resolution No. 4 adopted by the Extraordinary General Meeting of Shareholders on November 27, 2013.

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

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

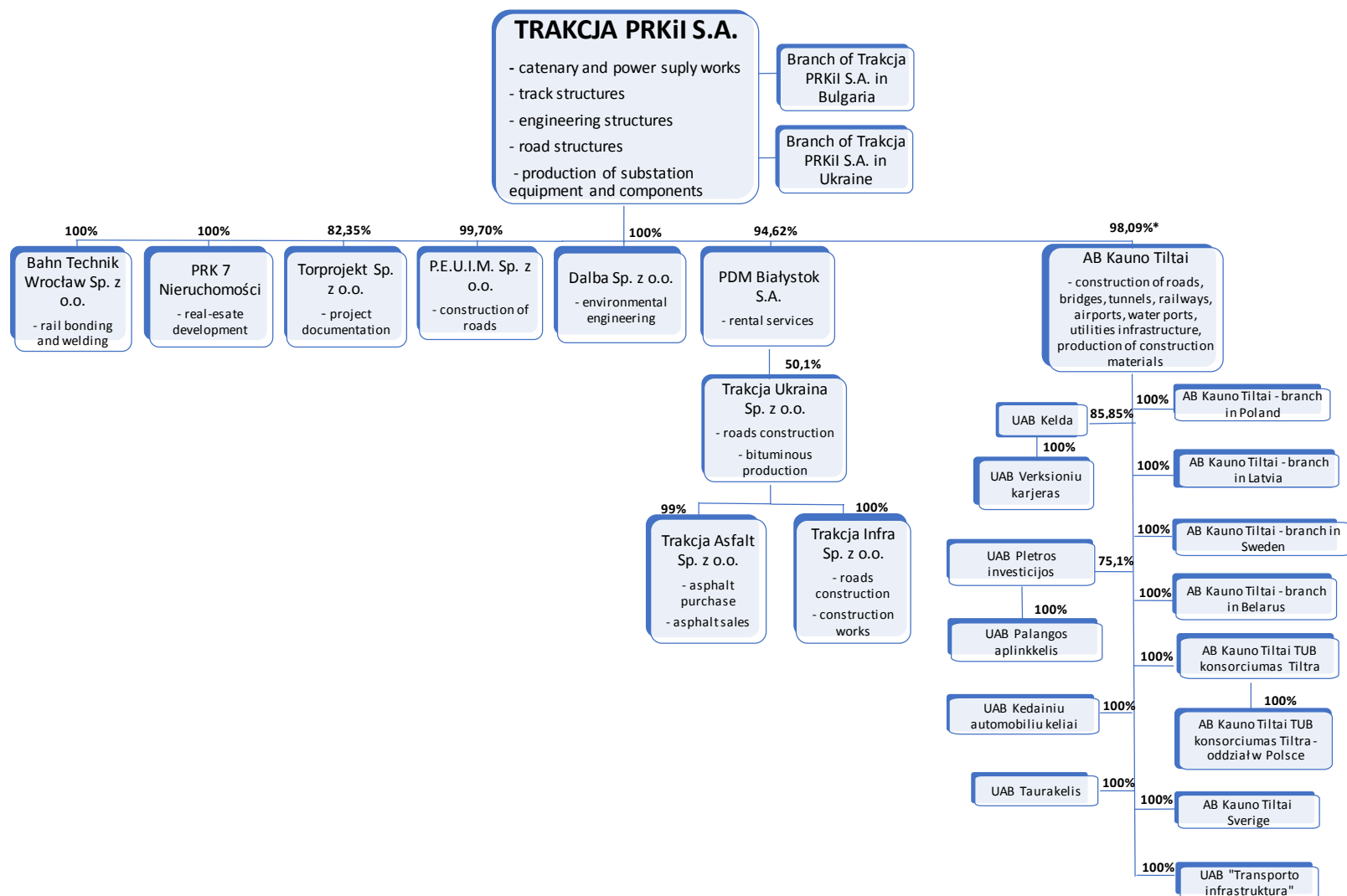
According to the Articles of Association, the Parent Company renders specialist construction and installation services within the scope of railway and tram lines electrification. The Company specialises in the following types of activity:

- foundation and network works,
- installation of traction substations and section cabs,
- installation of high and low voltage overhead and cable lines,
- installation of local supply and control cables,
- manufacturing of products (high, medium and low voltage switching stations, traction network equipment and local control devices),

- specialist equipment services (excavators, railway and truck cranes, boring rigs, pile drivers),
 - construction of bridges, viaducts, piers, flyovers, tunnels, underground passings, roads and accompanying elements of rail and road infrastructure.
-

2. Group members

As at September 30, 2017 the Group consists of the Parent Company (Trakcja PRKił S.A.) and its subsidiaries. The Group's organisational structure is presented in the diagram below.



*) Trakcja PRKił 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's structure and their consequences

In the third quarter of 2017, 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, 2017 the Company's Management Board was composed of the following members:

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

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

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

5. Parent Company's Supervisory Board

As at September 30, 2017 the Company's Supervisory Board was composed of the following members:

- Dominik Radziwiłł — Chairman of the Supervisory Board;
- Łukasz Rozdeiczner-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.

6. Parent Company's shareholdings

As at the publication hereof, the shareholders that hold directly or through subsidiaries at least 5% of the total number of votes at the Annual General Meeting ("AGM") of Trakcja PRKiI S.A., in accordance with the notifications referred to in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, were as follows:

Shareholder	Number of shares	% in votes at GSM	Number of votes	% in votes
COMSA S.A.	15 843 193	30,82%	15 843 193	30,82%
Nationale-Nederlanden OFE	5 111 908	9,95%	5 111 908	9,95%
OFE PZU "Złota Jesień"	4 349 650	8,46%	4 349 650	8,46%
Other	26 094 797	50,77%	26 094 797	50,77%
Total	51 399 548	100,00%	51 399 548	100,00%

The shareholdership of TRAKCJA PRKiI S.A. determined in accordance with the notification received (see above) differs from the shareholdership determined in accordance with the list of shareholders present on the most recent Annual General Meeting.

The shareholders that hold at least 5% of the total number of votes, present at the Annual General Meeting held on June 27, 2017 were as follows:

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

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

Since the release of the most recent current report, i.e. since August 30, 2017, the parent company has not received any notifications from its shareholders informing it about a change in the total number of votes in the parent company.

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

From the publication of the last interim report, i.e. From August 30, 2017, there have been no changes in the number of shares in the Parent Company held by members of its 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 within 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 14, 2017.

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 2016. During the 9 months ended on September 30, 2017, no significant changes have been made to any such accounting estimates, assumptions or professional judgement of the management as verified as at September 30, 2017.

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 2016.

In the third quarter of 2017, 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 2016.

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 and other facts and circumstances. During the 9 months ended on September 30, 2016, the Group classified its shares held in BTW as a joint venture pursuant to IFRS 11. On December, 30 2016 the Group gained control over BTW and since then the company has been fully consolidated.

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. The Company's Management Board states that it exercises control over individual entities based on the following:

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

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

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

Trakcja PRKiI holds 99.70% of shares in PEUiM Sp. z o.o. and has full control over the subsidiary. Trakcja PRKiI has become the owner of PEUiM through the acquisition of its shares.

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

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

Trakcja PRKiI holds 98.09% of shares in AB Kauno Tiltai and has control over the subsidiary. Trakcja PRKiI has become the owner of AB Kauno Tiltai, which is the parent company of AB Kauno Tiltai Group, through the acquisition of its shares.

The Group's composition and shareholdings are presented in Note 2 of the Notes hereto.

9.2. Estimate uncertainty

Recognition of revenues

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

Provisions for additional works

Provisions for additional works are estimated based on the knowledge of the construction site (contract) directors with regard to the required or potential performance of additional works for the benefit of the contracting entity, in order to fulfil warranty obligations. The largest companies that are members of Trakcja Group are obliged to grant warranty for their services. The provision for additional works depends on the segment in which the companies operate and is based on the Group's historical data. 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 which take into account the amendments to the remuneration regulations made on June 3, 2017. 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, 2017, 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 September 2017 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 rate. As at September 30, 2017 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 2016. 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.

Impairment of trade receivables and other receivables

The Management Board assesses whether there are any indications that trade receivables and other receivables may need to be impaired. The value of receivables is verified, taking into account the degree of probability of their payment, by way of recognising an impairment loss. Impairment losses depend on the likelihood of collection and the detailed analysis of key components of receivables. Depending on the type of customer and the source of receivables, the recoverability of receivables is assessed either on the basis of an individual analysis of individual receivables or on the basis of the statistical recoverability ratios estimated for collective receivables grouped by age. The recoverability ratios are calculated based on the past recoverability and customer behaviour, including also other factors which in the opinion of the Management Board may affect the recoverability of the current accounts receivable. The changes in the impairment loss on trade receivables and other receivables have been presented in Note 22 hereto.

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 26 and 28. 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 2016.

10. Basis for preparing the condensed consolidated financial statements

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.

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. During the 9 months ended on September 30, 2016, Bahn Technik Wrocław Sp. z o.o. Was consolidated using the equity 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.

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, 2017 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 2017. 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 PRKil 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 PRKil 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 2017 are consistent with those applied to the annual consolidated financial statements for 2016. The same principles apply to both the current and comparable period, unless a given standard or interpretation is to be applied only prospectively.

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

In these condensed consolidated financial statements, the Group decided not to apply any standards or interpretations issued before their effective dates.

At the moment, the IFRS in the shape approved by the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the below standards and amendments to standards, which as of November 14, 2016 have not yet been approved for application:

- **IFRS 14 Regulatory Deferral Accounts** (effective for annual periods beginning on or after January 1, 2016) – The European Commission decided not to start the approval process of this interim standard for application in the EU until its final version is issued,

- **IFRS 16 Leases** (effective for annual periods beginning on or after January 1, 2019),

- **IFRS 17 Insurance Contracts** (effective for annual periods beginning on or after January 1, 2021),

- **Amendments to IFRS 2 Share-based Payment** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018),

- **Amendments to IFRS 4 Insurance Contracts** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 Financial Instruments is first applied),

- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associated Entities and Joint Ventures** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, as amended (the effective date differed until the research project on the equity method has been concluded),

- **Amendments to IFRS 15 Revenue from Contracts with Customers** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2018),

- **Amendments to IAS 7 Statement of Cash Flows** – Disclosure Initiative (effective for annual periods beginning on or after January 1, 2017),

- **Amendments to IAS 12 Income Taxes** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after January 1, 2017),

- **Amendments to IAS 40 Investment Property** – Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018),

- **Amendments to various standards – Annual Improvements to IFRS Standards 2014–2016 Cycle** – Amendments made under the procedure for making annual improvements to IFRS (IFRS 1, IFRS 12 and IAS 28) which aimed primarily at eliminating any inconsistencies and clarifying the terminology thereof (amendments to IFRS 12 effective

for annual periods beginning on or after January 1, 2017, and amendments to IFRS 1 and IAS 28 effective for annual periods beginning on or after January 1, 2018),

- **Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration** (effective for annual periods beginning on or after January 1, 2018),

- **Interpretation IFRIC 23 Uncertainty over Income Tax Treatments** (effective for annual periods beginning on or after January 1, 2019).

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

Hedge accounting for a portfolio of financial assets and liabilities, whose principles have not been approved for application in the EU, continues to remain outside the regulations approved for application by the EU.

According to the Group's estimates, the application of hedge accounting to the portfolio of financial assets or liabilities under IAS 39 Financial Instruments: Recognition and Measurement would have no significant impact on the financial statements, if they were adopted for application as at the balance sheet date.

Amendments to the existing standards that have already been issued by the IASB and approved for application in the EU, but have not yet become effective

The following new standards have already been issued by the IASB and approved for application in the EU, but have not yet become effective as at the approval of these financial statements:

- IFRS 9 Financial Instruments — approved for application in the EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018),
- IFRS 15 Revenue from Contracts with Customers and Amendments to IFRS 15 Revenue from Contracts with Customers — approved for application in the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018).

The Group is in the process of analysing the effect of implementing IFRS 9 and IFRS 15 on the financial statements for periods following the entry into force thereof.

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

The new accounting standards did not have any significant impact on the condensed statements for the third quarter of 2017. In the reporting period, the Group did not make any significant amendments to the accounting policy either.

Changes to the existing standards applied for the first time to the Group's financial statements for 2017

As at the approval of these financial statements, there were no amendments made to the existing standards which had been issued by the IASB and approved for application in the EU and which would be applied for the first time to the Group's financial statements for 2017.

Changes introduced by the Group independently

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

13. Description of factors and events that have a significant impact on the financial performance of Trakcja Group in the third quarter of 2017

As at September 30, 2017 the Trakcja Group's portfolio of construction contracts was PLN 1,945 million (excluding any revenues allocated to consortium members). In the three quarters of 2017, the companies within Trakcja Group signed construction contracts with the total value of PLN 1,743 million (excluding the revenues allocated to consortium members), constituting a significant increase by PLN 1,238 million in comparison to the three quarters of 2016 (245.1%). The participation in new tenders at the break of 2017 and 2018 will allow the Group to secure, to an even greater extent, its portfolio of contracts for future periods. Therefore, Trakcja Group will keep on supplementing its contract portfolio. As at the publication hereof, the parent company's six most attractive contracts totalled PLN 582 million. In the event that the aforementioned tenders are awarded to the Group, the Management Board expects that the contract portfolio will increase significantly in the coming months.

The Trakcja Group's sales revenues for the third quarter of 2017 were PLN 412,108 thousand, that is they increased by PLN 3,374 thousand as compared to the analogous period of 2016. The cost of goods sold increased by PLN 34,273 thousand and amounted to PLN 390,371 thousand.

The gross profit on sales was PLN 21,737 thousand and decreased by PLN 30,899 thousand as compared to the corresponding period of the previous year. In the third quarter of 2017, the gross profit margin was 5.3%, while in the corresponding period of 2016 it was 12.9%. The factors that mostly affected the Company's results in Q3 2017 included the worsening conditions of conducting business activity in the construction and assembly sector. In particular, this refers to an increase in prices of materials, subcontracting services, and costs of salaries. Moreover, the Parent Company incurs the costs relating to the diversification of activity on the professional power market and

preparing the business on foreign market. A significant factor affecting the decrease in the gross profit margin on sales was the change of the structure of the portfolio of contracts awarded to the Lithuanian members of the Group. However, this change of the structure of the portfolio should be considered only temporary. In 2016, the Lithuanian companies implemented several large projects which enabled them to achieve economies of scale. In 2017, however, the average size of the road contract performed in Lithuania decreased significantly. Furthermore, the Lithuanian companies did not perform any railway contracts due to the fact that no tenders for such contracts were launched. The Lithuanian companies put much emphasis on the high standards for quality of work, timeliness, safety and technological innovations. As smaller contracts were still announced, competitors with lower fixed costs were able to participate in tenders, which resulted in further pressure being put on the prices offered. New tenders are expected to be announced for large and significant contracts to be performed in the road and railway sectors in Lithuania. In such an event, the high standards of the Lithuanian companies should give them a competitive advantage and deliver the expected positive results.

The general and administrative costs were PLN 12,449 thousand and decreased by 9.3%, i.e. by PLN 1,280 thousand, in comparison with the comparable period. The cost of sales, marketing and distribution amounted to PLN 1,625 thousand and increased by PLN 513 thousand. The increase was mainly related to the participation of the Parent Company in the TRAKO International Railway Fair, which takes place every two years. The profit on other operating activities of the Group was at PLN 347 thousand and increased by PLN 4,481 thousand as compared to the comparable period. The Group's operating profit for the third quarter of 2017 was PLN 8,010 thousand. The operating profit decreased by PLN 26,033 thousand as compared to the third quarter of 2016, when it was at PLN 34,043 thousand.

The Group's loss on financial activities for the third quarter of 2017 was PLN 331 thousand and increased by PLN 1,254 thousand in relation to the result on financial activities for the third quarter of the preceding year.

The Group's gross profit for the period from July 1, 2017 to September 30, 2017 was PLN 8,341 thousand. The gross profit for the third quarter of 2017 decreased by PLN 24,779 thousand as compared to the third quarter of 2016, when it was PLN 33,120 thousand. The income tax for the third quarter of 2017 decreased the gross profit by PLN 1,127 thousand and was higher by PLN 3,337 thousand as compared to the corresponding period of the previous year. The Group's net profit for the period from July 1, 2017 to September 30, 2017 was PLN 7,214 thousand. It was lower by PLN 21,442 thousand than the net profit for the third quarter of 2016.

At the end of the third quarter of 2017, the Group's balance sheet total was PLN 1,450,655 thousand and was higher by 3.9% than the balance sheet total at the end of 2016.

The non-current assets increased by PLN 21,586 thousand (i.e. by 3.0% of the non-current assets as at December 31, 2016) and were PLN 743,311 thousand, while the current assets increased by PLN 32,336 thousand, i.e. by 4.8% in comparison with their value as at December 31, 2016 and were PLN 707,344 thousand.

The increase in the non-current assets was mainly caused by an increase in the tangible non-current assets by PLN 22,102 thousand, which as at 30 September 2017 were PLN 269,591 thousand.

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 92,824 thousand, i.e. 257.3%. Construction contracts and paid advances for executed contracts as at September 30, 2017 amounted to PLN 128,907 thousand. The value of inventory has also increased in comparison to the balance as at the end of the previous year, from PLN 75,861 thousand to PLN 116,662 thousand, i.e. by PLN 40,801 thousand. As at September 30, 2017 the cash and cash equivalents decreased by PLN 74,468 thousand, i.e. by 50.0%, as compared to December 31, 2016.

As at September 30, 2017 the total equity of the Group decreased by PLN 26,462 thousand in comparison with its balance as at December 31, 2016. This decrease was mainly the effect of payment of dividend.

As at September 30, 2017 the long-term liabilities were PLN 134,566 thousand and decreased by PLN 18,984 thousand, i.e. by 12.4%, in comparison with their balance as at December 31, 2016. The decrease mainly covered long-term reserve due to a release of a part of the reserve for corrective works in connection with the discontinuation of the basis to maintain this reserve. Details are presented in Note 23 to these Statements.

The short-term liabilities were PLN 566,584 thousand and increased by 21.3%, i.e. by PLN 99,368 thousand, as compared to December 31, 2016. The increase was mainly related with the growing value of construction contracts and received advance payments for executed contracts, which amounted to PLN 112,722 thousand. The advances towards contracts being performed are disclosed as the short-term liabilities and will be settled during the performance of contracts as part of the Company's normal operating cycle.

At the beginning of 2017, the Group's cash presented in the consolidated cash flow statement was PLN 146,360 thousand, while at the end of the 9-month period it was PLN 74,319 thousand. The total net cash flows for the first 9 months of 2017 were negative and amounted to PLN 72,041 thousand, which constituted an increase PLN 115,673 thousand in comparison with the corresponding period of 2016. In the third quarter of 2017, the Parent Company paid dividends in the total amount of PLN 25,700 thousand to its shareholders, i.e. PLN 0.50 per share.

14. Seasonality and cyclicity

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 second and third 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 2017, 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, 2017, 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 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.

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 associated with the lack of qualified employees,
- Currency risk,
- Risk associated with the volatility of prices for materials,
- Risk associated with the joint and several liability of members of construction consortia and with the liability for subcontractors,
- Risk related to potential penalties for failure to complete contracts,
- Risk related to potential environmental penalties,
- Risk of underestimating the project costs,
- Risk of completing the construction contracts,
- 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.

Factors other than the aforementioned, which may cause fluctuations in prices of shares in Trakcja - Tiltra S.A., include the following:

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

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 2017.

20. Brief description of significant accomplishments or failures in the third quarter of 2017

In the third quarter, the Trakcja Group generated net profit of PLN 7,214 thousand.

The Group's significant accomplishments in the 9-month period ended September 30, 2016 include the following:

- Signing new contracts valued at PLN 1,743 million (save for the part assigned to consortium partners), which constitutes an increase of PLN 1 238 million (245.1%) in comparison to the same period of the previous year.
- Generating net profit of PLN 8,303 thousand in spite of a difficult situation on Polish and Lithuanian markets.
- Rebuilding the contracts portfolio.
- Securing the availability of funding: as at September 30, 2017 the Trakcja Group's companies had at their disposal the total of overdrafts and revolving loans of up to PLN 177 million.
- Securing the availability of guarantee limits: as at September 30, 2017 the Trakcja Group's companies had at their disposal guarantee limits in the amount of up to PLN 774 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

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

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, 2017.

22. Change in impairment losses and write-downs

	Tangible assets	Goodwill	Inventory	Receivables	Total
As at 1.01.2017	792	61 532	688	26 003	89 015
<i>Audited</i>					
Recognized	-	-	75	26 752	26 827
Variances due to currency translation	-	-	(20)	(37)	(57)
Used	-	-	-	(959)	(959)
Reversed	-	-	(102)	(3 224)	(3 326)
As at 30.09.2017	792	61 532	641	48 535	111 500
<i>Unaudited</i>					

The impairment loss on receivables recognised in the 9-month period ended on September 30, 2017 includes an impairment loss on receivables from contractual penalties to be paid by subcontractors, in the amount of PLN 25,007 thousand.

23. Provisions

As at 1.01.2017	63 003
<i>Audited</i>	
Recognized	5 825
Foreign exchanges due to currency translation	(622)
Used	(15 944)
Reversed	(20 487)
As at 30.09.2017	31 775
<i>Unaudited</i>	
including	
- long-term	16 996
- short-term	14 779

During the 9-month period ended on September 30, 2017, the Group reversed the provisions for additional works in the amount of PLN 13,172 thousand and also used them in the amount of PLN 6,203 thousand.

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

From January 1, 2017 to September 30, 2017, the Group purchased tangible non-current assets and intangible assets in the amount of PLN 51,980 thousand (as compared to PLN 35,718 thousand in the comparable period of 2016).

From January 1, 2017 to September 30, 2017, the Group disposed of tangible non-current assets and intangible assets in the total book value of PLN 5,711 thousand (as compared to PLN 1,469 thousand in the comparable period of 2016).

As at 30 September 2017 the Group had a substantial liability in the amount of PLN 6,465 thousand arising from a loan granted by the manufacturer of the machine purchased in the reporting period. The loan has been granted for the purchase of tangible non-current assets and is to be repaid by March 24, 2020.

25. Interests in joint ventures

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

On October 31, 2017 the Company's representatives have submitted to Leonhard Weiss International GmbH (seller of shares) a statement on a decrease of the price for purchased shares by PLN 10,000,000 along with a debit note, and called on Leonhard Weiss International to pay this amount. Trakcja PRKiL S.A. made a write-down to receivables on the account of this debit note. The reason for the submission of the price decrease statement and the call for payment is the loss incurred by the Company caused by activities of Leonhard Weiss International, as well as liability under a warranty.

The Company also undertook other action aiming at determining the parties responsible for the situation in BTW.

Trakcja PRKiI had so far held 50% of shares in BTW. Under the agreement concluded, the Issuer has become the sole shareholder in BTW. Until December 30, 2016 BTW was classified as a joint venture, pursuant to IFRS 11 it was consolidated under the equity method. It is recognised that the Company gained full control over BTW on December 30, 2016. During the 9-month period ended on September 30, 2017, BTW was fully consolidated.

The condensed financial data of BTW for the 9-month period ended on September 30, 2016, when the company was recognised as a joint venture, are presented below.

	1.01.2016 - 30.09.2016
	<i>Unaudited</i>
Sales revenues	19 478
Cost of goods sold	20 095
including: Depreciation	2 341
Financial income	148
including: Interest income	5
Financial costs	355
including: Interest cost	44
Income tax	(107)
Net result from continued operations	(605)
Net result from discontinued operations	-
Other comprehensive income	-
Total comprehensive income	(605)
Group's share of profit for the year from continued operations (50%)	(302)
Group's share of total comprehensive income for the year from continued operations (50%)	(302)

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

In the third quarter of 2017, 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 2017, no fair value was reallocated to level 1, 2 or 3.

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

In the third quarter of 2017, the Group did not reclassify any financial assets due to changes in their purpose or use.

28. 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, 2017 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 2016.

Balance sheet elements accounted in fair value	Level 1		Level 2		Level 3	
	30.09.2017	31.12.2016	30.09.2017	31.12.2016	30.09.2017	31.12.2016
Derivatives (liability)	-	-	5 600	6 976	-	-
Investment property	-	-	-	-	20 962	21 226
Office properties	-	-	-	-	15 213	15 213
Land properties	-	-	-	-	1 921	2 185
Deposits of natural resources	-	-	-	-	3 828	3 828

In the period of 9 months ended September 30, 2017 no reallocations were made to level 1, 2 or 3.

29. Information on segments

Segments are described in the consolidated annual financial statements of Trakcja Group for 2016.

Key customers:

In the period of 9 months of 2017, 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.

The total amount of income obtained in 9 months ended 30.09.2017 from a single customer (thousand PLN)	Operation segment containing the revenues
442 335	Civic building - 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.

Operating segments:

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

For the period from 1.01.2016 to 30.09.2016

Unaudited

	Continued operations						
	Civic building - Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales between segments	514 570	372 547	446	887 563	-	-	887 563
Total segment revenues	5	-	-	5	-	(5)	-
Total segment revenues	514 575	372 547	446	887 568	-	(5)	887 563
Results							
Share of profit (losses) of joint venture	10 549	6 758	50	17 357	-	-	17 357
Financial revenues - interests	(302)	-	-	(302)	-	-	(302)
Financial expenses - interests	557	2 780	31	3 368	-	-	3 368
-	2 248	2 264	8	4 520	-	-	4 520
Gross profit	24 773	55 381	(1 296)	78 858	-	(23 220)	55 638

As at 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
Segment assets	865 000	747 075	39 683	1 651 758	-	(211 963)	1 439 795
Assets not allocated to segments							10 860
Total assets							1 450 655
Segment liabilities*	395 914	250 375	2 964	649 253	-	(82 669)	566 584
Other disclosures:							
Impairment of non-financial assets	(18 178)	(17 185)	-	(35 363)	-	-	(35 363)
Investments in joint ventures	(75)	-	-	(75)	-	-	(75)

* short-term liabilities were allocated to assess segment

As at 31.12.2016

Audited

	Continued operations						
	Civic building - Poland	Construction, engineering and concession agreements segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Segment assets	806 362	702 631	44 275	1 553 269	-	(167 243)	1 386 026
Assets not allocated to segments							10 707
Total assets							1 396 733
Segment liabilities*	322 596	185 287	7 305	515 188	-	(47 972)	467 216
Capital expenditure							
Impairment of non-financial assets	(34 333)	(14 174)	-	(48 508)	-	-	(48 508)
Investments in joint ventures	(12 961)	-	-	(12 961)	-	-	(12 961)

* short-term liabilities were allocated to assess segment

Geographical segments:

For the period from 1.01.2017 to 30.09.2017

Unaudited

	Continued operations			Discontinued operations	Exclusions	Total operations
	Domestic	Abroad	Total			
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

For the period from 1.01.2016 to 30.09.2016

Unaudited

	Continued operations			Discontinued operations	Exclusions	Total operations
	Domestic	Abroad	Total			
Revenues						
Sales to external customers	515 017	372 547	887 563	-	-	887 563
Sales between segments	5	-	5	-	(5)	-
Sales domestic/ abroad	-	-	-	-	-	-
Total segment revenues	515 022	372 547	887 568	-	(5)	887 563

As at 30.09.2017

Unaudited

	Continued operations			Discontinued operations	Exclusions	Total operations
	Domestic	Abroad	Total			
Operating assets	904 735	747 023	1 651 758	-	(211 963)	1 439 795
Segment liabilities*	416 207	233 046	649 253	-	(82 669)	566 584

* short-term liabilities were allocated to assess segment

As at 31.12.2016

Audited

	Continued operations			Discontinued operations	Exclusions	Total operations
	Domestic	Abroad	Total			
Operating assets	850 694	702 575	1 553 270	-	(167 243)	1 386 026
Segment liabilities*	347 593	167 595	515 188	-	(47 972)	467 216

* short-term liabilities were allocated to assess segment

30. Contingent receivables and liabilities

Contingent receivables and liabilities are presented in the table below:

	30.09.2017 <i>Unaudited</i>	31.12.2016 <i>Audited</i>
Contingent receivables		
From other entities due to:	62 679	70 528
Received guarantees and sureties	59 501	65 693
Bills of exchange received as collateral	3 178	4 835
Total contingent receivables	62 679	70 528
Contingent liabilities		
From other entities due to:	2 827 062	2 289 406
Provided guarantees and sureties	789 341	605 412
Promissory notes	583 692	548 593
Mortgages	150 657	152 057
Assignment of receivables	1 161 982	851 469
Assignment of rights under insurance policy	57 874	48 412
Security deposits	16 360	14 280
Other liabilities	67 156	69 183
Total contingent liabilities	2 827 062	2 289 406

Contingent liabilities due to guarantees and sureties granted for the benefit of other entities are mainly guarantees issued by banks for the benefit of business partners of the Group members as collateral for their claims against the Group arising 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, 2017, except for the aforementioned contingent receivables and liabilities, the Group had contingent receivables in the amount of PLN 1,474 thousand (December 31, 2016: PLN 1,503 thousand) arising from the employment contracts signed with employees. If a manager fails to meet his or her obligations defined in Article 1, 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, 2017 - amounted to PLN 8,662 thousand (as compared to PLN 8,265 thousand as at December 31, 2016).

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 September 30, 2017 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.

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

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

32. Significant court cases and disputes

In the third quarter of 2017 the Company and its subsidiaries were not parties to any pending court proceedings, arbitration proceedings or any proceedings before any public administration authority, the value of which would separately constitute an equivalent of at least 10% of the equity of Trakcja PRKiL S.A. The Company also informs that the total value of the proceedings concerning its claims and liabilities constitutes at least 10% of the Company's equity.

The total value of the proceedings concerning the Company's claims as at September 30, 2017 amounted to PLN 64,181,446.06, and the total value of proceedings concerning the Company's liabilities amounted to PLN 3,570,868.50.

The most significant proceedings concerning claims:

The case concerning reporting the liability from Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej in Warsaw (as at the date of commencement of proceedings, the case value exceeded 10 % of the Company's equity)

Trakcja S.A. in Warsaw merged with Przedsiębiorstwo Robót Kolejowych i Inżynieryjnych S.A. in Wrocław. As a result of this merger, the legal successor of both companies is Trakcja PRKiL 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 PRKiL S.A. were recognised in the amount of PLN 10,569,163.16, including PLN 10,274,533.87 for the unpaid invoices and PLN 294,632.29 for the interest for delay in payment. The Company's receivables from contractual penalties and other claims in the total amount of PLN 44,956,834.35 were dismissed. The Company did not agree with that dismissal; therefore, an objection was submitted to the judge commissioner concerning the dismissal in the aforementioned scope. The court had rejected the objection; therefore the Company filed a complaint which was overruled. On June 8, 2015 the Company received a notice from the trustee in bankruptcy on the change in the bankruptcy procedure from the arrangement bankruptcy to the liquidation bankruptcy. The case is pending and its resolution date is difficult to predict.

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

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

The most significant proceedings concerning liabilities:

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

Eiffage Polska Koleje Sp. z o.o. based in Warsaw filed on May 15, 2015 a suit for payment for the amount of PLN 1,634,833.00 against Trakcja PRKiI S.A., seeking remuneration for additional expenses incurred in the extended term of the contract. The Company has filed a statement of defence.

After the balance sheet date, on 25 October 2017, the parties have concluded a court arrangement in the case.

Other proceedings:

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

PRK 7 Nieruchomości Sp. z o.o.

A case filed by Osiedle Lazurowe Commonhold against the company for the payment of PLN 700,466.50 together with interest from the date of filing the suit to the date of payment, is pending before the Regional Court in Warsaw. The Company challenges the claims included in the lawsuit, therefore the Company submitted a response to the lawsuit. In 2015, a provision was established to cover this amount. The case is pending and its resolution date is difficult to predict.

AB Kauno Tiltai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, of which a subsidiary, AB Kauno Tiltai, is a member, for a total amount of PLN 64,591,497.18 (EUR 14,989,556.33). The investor brought a claim against AB Kauno Tiltai concerning the contractual penalty for delay in the performance of works. The share of Trakcja Group in liabilities (if any) that may arise from these proceedings is 65 %. Currently, an expert opinion has been prepared in the case, and the hearing has been rescheduled to January 30, 2018. As a result of the analysis of risks related to the pending court proceedings, the Group established a provision regarding the proceedings in 2015. As at December 31, 2016 the Group decided to keep the provision unchanged in the amount set since December 31, 2015. The Group refrained from making any other disclosures related to this court case by invoking clause 92 of IAS 37.

Post-balance sheet date events:

On October 31, 2017 the Company filed a suit against PKP PLK S.A. for the payment of PLN 46,747,276.90, requesting the payment of the fee in connection with extension of the execution 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 the railway line E 30/C-E30, section Kraków - Rzeszów, phase III". 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 suit for payment against PKP PLK S.A. for reimbursement of additional costs related with the extension of the execution date of the contract within the scope of the project entitled "Modernization of the E 59 Line at the Wrocław — Poznań Section, Stage II — Wrocław section — Lower Silesia Border". The portion of the suit claimed by the Company amounts to PLN 11,640,113.77. The case is at the early stage of proceedings and its resolution date is difficult to predict.

On October 31, 2017 the Company filed a suit in payment order proceedings against PKP PLK S.A. for the payment of PLN 12,221,007.10 on the account of the payment for the performed additional works within the scope of the project entitled “Modernization of the E3-/C-E 30 Line, Kraków – Rzeszów Section, Stage III”. The case is at the early stage of proceedings and its resolution date is difficult to predict.

33. Dividends paid and declared

In the third quarter of 2017, Trakcja PRKiI S.A. paid dividends.

On June 27, 2017 the Company's Annual General Meeting adopted a resolution, according to which the Company's profit for 2016 in the amount of PLN 28,698,634.86 would be allocated as follows:

- the amount of PLN 25,699,774.00 (i.e. PLN 0.50 per share) to pay dividends,
- the amount of PLN 2,998,860.86 to increase the supplementary capital.

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

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

34. Information on related entities

In the third quarter of 2017, the Group companies did not make any significant transactions with their related entities on terms other than at arm's length. Transactions made by the Parent Company and its subsidiaries (related entities) are the arm's length transactions and their nature is a result of the current operations conducted by the Parent Company and its subsidiaries.

Please find below the totals of transactions made with related entities from January 1, 2017 to September 30, 2017:

Related entities	Period	Sale to related entities	Purchases from related entities
Shareholders of parent company:			
COMSA S.A.	1.01.2017 - 30.09.2017	47 160	1 028
	1.01.2016 - 30.09.2016	-	1 413
Joint ventures:			
BTW Sp. z o.o.	1.01.2016 - 30.09.2016	746	3 420
Total	1.01.2017 - 30.09.2017	47 160	1 028
	1.01.2016 - 30.09.2016	746	4 833

Please also find below information on any receivables from and liabilities towards related entities September 30, 2017:

Related entities	Reporting date	Net receivables from related entities	Liabilities towards related entities
Shareholders of parent company:			
COMSA S.A.	30.09.2017	6 408	461
	31.12.2016	5 798	831
Total	30.09.2017	6 408	461
	31.12.2016	5 798	831

The Parent Company and its shareholder, COMSA S.A., have signed an agreement for granting to Trakcja PRKil 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.

35. Significant events in the third quarter of 2017 and after the balance sheet date

Please find below a summary of significant events that took place in the third quarter of 2017.

1. On August 16, 2017 the Parent Company and PKP PLK S.A. concluded the agreement for design and completion of construction works on the railway line E20 Siedlce – Terespol as part of the project “Works on the railway line E20, at the section Siedlce – Terespol, PHASE III – LCS Terespol”. The agreement's net value is PLN 417.5 million. Works are to be completed within 36 months of their commencement. The aforementioned information was published in the Current Report No. 15/2017 dated August 16, 2017.
2. On September 14, 2017 the Company's Supervisory Board passed a resolution on appointing Mr Maciej Sobczyk as the Vice-President of the Management Board as of September 14, 2017.

Apart from the events described in Note no. 32, post balance sheet date and up to the date of confirming these interim condensed financial statements, no significant events occurred that should be disclosed in these interim condensed financial statements.

IV. QUARTERLY FINANCIAL INFORMATION

STANDALONE INCOME STATEMENT

	1.01.2017 - 30.09.2017	01.07.2017 - 30.09.2017	1.01.2016 - 30.09.2016	01.07.2016 - 30.09.2016
	<i>Unaudited</i>		<i>Unaudited</i>	
Continued operations				
Sales revenue	553 768	231 761	491 116	222 773
Cost of goods sold	(532 622)	(227 395)	(463 583)	(210 984)
Gross profit (loss) on sales	21 146	4 366	27 533	11 789
Cost of sales, marketing and distribution	(1 769)	(688)	(1 324)	(383)
General and administrative costs	(15 910)	(5 234)	(18 132)	(5 638)
Other operating revenues	2 980	382	2 655	734
Other operating costs	(1 189)	(382)	(4 821)	(4 483)
Operating profit (loss)	5 258	(1 556)	5 911	2 019
Financial revenues	22 932	1 230	25 768	254
Financial costs	(4 409)	(846)	(3 625)	(1 479)
Gross profit (loss)	23 781	(1 172)	28 054	795
Income tax	(819)	631	(679)	153
Net profit (loss) from continued operations	22 962	(541)	27 375	948
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	22 962	(541)	27 375	948
Profit per share attributable to shareholders in the period (PLN per share)				
- basic	0,45	(0,01)	0,53	0,02
- diluted	0,45	(0,01)	0,53	0,02

STANDALONE STATEMENT OF COMPREHENSIVE INCOME

	1.01.2017 - 30.09.2017	01.07.2017 - 30.09.2017	1.01.2016 - 30.09.2016	01.07.2016 - 30.09.2016
	<i>Unaudited</i>		<i>Unaudited</i>	
Net profit for the period	22 962	(541)	27 375	948
Other comprehensive income:				
Other comprehensive income that will not be reclassified into profit or loss under certain conditions:				
Actuarial gains/(losses)	(79)	-	1 069	510
Other comprehensive income that will be reclassified to profit or loss:				
Foreign exchange differences on translation of foreign operations	(9)	(4)	-	-
Total other comprehensive income	(88)	(4)	1 069	510
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	22 874	(545)	28 444	1 458

STANDALONE BALANCE SHEET

	30.09.2017 <i>Unaudited</i>	31.12.2016 <i>Audited</i>
ASSETS		
Non-current assets	668 102	657 078
Tangible non-current assets	140 723	134 895
Intangible assets	53 299	54 276
Investment properties	17 174	17 174
Investments in subsidiaries	436 241	436 241
Other financial assets	5 492	4 734
Deferred tax assets	6 691	7 483
Accruals	8 482	2 275
Current assets	387 798	356 980
Inventory	62 667	30 400
Trade and other receivables	214 259	281 302
Income tax receivables	133	-
Other financial assets	4 484	5 836
Cash and cash equivalents	37 814	18 820
Accruals	9 493	3 981
Construction contracts and advances paid towards contracts being performed	55 886	13 579
Assets held for sale	3 062	3 062
TOTAL ASSETS	1 055 900	1 014 058
Equity and liabilities		
Equity	622 493	625 311
Share capital	41 120	41 120
Share premium account	309 984	309 984
Revaluation reserve	5 803	5 800
Other capital reserves	242 642	239 717
Retained earnings	22 962	28 699
Różnice kursowe z przeliczenia jednostek zagranicznych	(18)	(9)
Total equity	622 493	625 311
Long-term liabilities	59 933	80 736
Interest-bearing loans and borrowings	50 158	54 759
Provisions	6 712	17 577
Liabilities due to employee benefits	3 063	8 400
Short-term liabilities	373 474	308 011
Interest-bearing loans and borrowings	27 208	16 249
Trade and other liabilities	200 200	245 053
Provisions	8 684	19 722
Liabilities due to employee benefits	7 920	7 200
Tax liabilities	-	2 095
Accruals	325	258
Construction contracts and advances received towards contracts being performed	129 137	17 434
TOTAL EQUITY AND LIABILITIES	1 055 900	1 014 058

STANDALONE STATEMENT OF CASH FLOWS

	1.01.2017 - 30.09.2017 <i>Unaudited</i>	1.01.2016 - 30.09.2016 <i>Unaudited</i>
<i>Cash flows from operating activities</i>		
Gross profit from continued operations	23 781	28 054
Adjustments for:	11 465	(165 789)
Depreciation	10 351	9 005
FX differences	126	246
Net interest and dividends	(19 388)	(23 516)
Profit on investment activities	69	232
Change in receivables	67 833	(118 626)
Change in inventory	(32 266)	(30 707)
Change in liabilities, excluding loans and borrowings	(49 456)	5 995
Change in prepayments and accruals	(11 654)	2 965
Change in provisions	(21 903)	5 174
Change in construction contracts	69 396	(14 992)
Income tax paid	(2 229)	(3 362)
Other	602	1 797
Foreign exchange differences on translation of foreign operations	(16)	-
Net cash flows from operating activities	35 246	(137 735)
<i>Cash flows from investment activities</i>		
Sale (purchase) of intangible assets and tangible non-current assets	(7 007)	(20 577)
- acquisition	(13 016)	(20 837)
- sale	6 009	260
Sale (acquisition) of shares and stocks in affiliates and subsidiaries	-	(160)
- acquisition	-	(160)
Financial assets	(1 617)	6 337
- granted or acquired	2 153	9 676
- repaid	(3 770)	(3 339)
Loans	2 000	(3 700)
- granted	3 000	-
- repaid	(1 000)	(3 700)
Dividend received	20 685	12 733
Interest received	243	-
Net cash flows from investment activities	14 304	(5 367)
<i>Cash flows from financial activities</i>		
Proceeds on account of taken borrowings and loans	9 346	57 040
Repayment of borrowings and loans	(4 618)	(3 209)
Interests and commissions paid	(2 749)	(2 089)
Inflows (outflows) due to other financial liabilities	(197)	(327)
Payment of liabilities under financial lease agreements	(6 638)	(5 443)
Dividends paid to shareholders	(25 700)	(17 476)
Net cash flows from financial activities	(30 556)	28 496
Total net cash flows	18 994	(114 606)
Cash at start of period	18 820	136 025
Cash at end of period	37 814	21 419

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 1.01.2017	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 changes	-	-	3	-	5	-	-	8
As at 30.09.2017 Unaudited	41 120	309 984	5 803	391	242 251	(18)	22 962	622 493
As at 1.01.2016	41 120	309 984	6 295	(779)	221 546	-	35 161	613 327
Net profit for the period	-	-	-	-	-	-	27 375	27 375
Other comprehensive income	-	-	-	1 069	-	-	-	1 069
Distribution of profit	-	-	-	-	17 685	-	(17 685)	-
Divided payment	-	-	-	-	-	-	(17 476)	(17 476)
Other	-	-	(6)	-	-	-	-	(6)
As at 30.09.2016 Unaudited	41 120	309 984	6 289	290	239 231	-	27 375	624 289

	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 01.01.2016 Audited	41 120	309 984	6 295	(779)	221 546	-	35 161	613 327
Net profit for the period	-	-	-	-	-	-	28 699	28 699
Other comprehensive income	-	-	(490)	1 249	-	(9)	-	750
Distribution of profit	-	-	-	-	17 685	-	(17 685)	-
Divided payment	-	-	-	-	-	-	(17 476)	(17 476)
Other changes	-	-	(5)	-	16	-	-	11
As at 31.12.2016 Audited	41 120	309 984	5 800	470	239 247	(9)	28 699	625 311

V. NOTES TO THE CONDENSED STANDALONE FINANCIAL STATEMENTS

1. Analysis of the financial performance of Trakcja PRKiI S.A. in the third quarter of 2017

In the third quarter ended September 30, 2017 the Company's sales revenues were PLN 231,761 thousand, which is an increase by 4.0% as compared to the corresponding period of 2016. In the third quarter of 2017, the cost of goods sold increased by PLN 16,411 thousand, i.e. by 7.8%, and was PLN 227,395 thousand. In the third quarter of 2017 the Company recognized gross profit of PLN 4,366 thousand, which was significantly affected by the release of operational reserve and reversal of write-downs to receivables in the total amount of PLN + 6,837 thousand, as well as losses disclosed in contracts in the third quarter in the amount of PLN -7,541 thousand (refers mainly to one contract in the professional power segment and one contract in the railway segment). In the third quarter of 2017, the gross profit margin was 1.9% and dropped by 3.4 pp. in comparison with its level at the end of the third quarter of 2016. The factors that mostly affected the decrease of the gross profit margin in Q3 2017 included the worsening conditions of conducting business activity in the construction and assembly sector. In particular, this refers to an increase in prices of materials, subcontracting services, and costs of salaries. Moreover, the Company incurs the costs relating to the diversification of activity on the professional power market and preparing the business on foreign market. Therefore, planned margin was adjusted until the completion of pending contracts, in account of the foreseen changes in terms of production costs.

The general and administrative costs were at PLN 5,234 thousand and decreased by 7.2%, i.e. by PLN 404 thousand, in comparison with the comparable period. The costs of sale, marketing and distribution in the discussed period reached PLN 688 thousand and increased by PLN 305 thousand in comparison to the analogical period of the previous year. The increase was mainly related to the participation of the Company in the TRAKO International Railway Fair, which takes place every two years.

The balance on other operating activities was at PLN 0 thousand. It increased by PLN 3,749 thousand as compared to the corresponding period of the comparable year. The Company's operating profit for the period from July 1, 2017 to September 30, 2017 was PLN 1,556 thousand. The result on operating activities decreased by PLN 3,575 thousand in comparison to the result on operating activities for the third quarter of 2016, i.e. when the profit on operating activities reached PLN 2,019 thousand.

The Company's financial revenues were at PLN 1,230 thousand and increased in comparison with the financial revenues for the third quarter of 2016 by PLN 976 thousand. The financial expenses decreased by PLN 633 thousand and were at PLN 846 thousand.

The Company's gross profit for the period from July 1, 2017 to September 30, 2017 was PLN 1,172 thousand. Income tax for the third quarter of 2017 positively affected the net result on continued activities in the amount of PLN 631 thousand. This constitutes an increase as compared to the corresponding period of the previous year by PLN 478 thousand. The Company's net loss for the period from July 1, 2017 to September 30, 2017 amounted to PLN 541 thousand and was lower by PLN 1,489 thousand in comparison to the same period of the previous year.

At the end of the third quarter of 2017, the Company's balance sheet total was at PLN 1,055,900 thousand and was higher by PLN 41,842 thousand than the balance sheet total at the end of 2016.

The non-current assets increased by PLN 11,024 thousand and reached PLN 668,102 thousand. As compared to December 31, 2016, the current assets increased by PLN 30,818 thousand, i.e. a growth by 8.6%, and were at PLN 387,798 thousand. The increase resulted primarily from an increase in construction contracts and payment of advances for completed contracts by PLN 42,307 thousand, which reached PLN 55,886 thousand as at September 30, 2017. The Company's inventories also increased by PLN 32,267 thousand and were at PLN 62,667 thousand as at

September 30, 2017. The Company's cash and cash equivalents increased by PLN 18,994 thousand, i.e. by 100.9%, and were at PLN 37,814 thousand as at September 30, 2017.

As at September 30, 2017 the Company's equity increased by PLN 2,818 thousand as compared to its balance as at December 31, 2016.

In comparison with December 31, 2016, the long-term liabilities decreased by PLN 20,803 thousand and were at PLN 59,993 thousand as at September 30, 2017. The short-term liabilities were at PLN 373,474 thousand and increased by 21.3%, i.e. by PLN 65,463 thousand as compared to the end of the previous year. The largest increase was experienced by construction contracts and received advances for completed contracts, which reached PLN 129,137 thousand and increased by PLN 111,703 thousand.

At the beginning of 2017, the Company's cash was at PLN 18,820 thousand, while at the end of the 9-month period it was PLN 37,814 thousand. The total net cash flows for the first 9 months of 2017 were at PLN 18,994 thousand, which means that they increased by PLN 133,600 thousand in comparison with the corresponding period of 2016. The Company's cash flows from operating activities were at PLN 35,246 thousand.

2. Seasonality and cyclicity

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 second and third quarters and the lowest in the first quarter.

3. Contingent receivables and liabilities

Contingent receivables and liabilities are presented in the table below:

	30.09.2017 <i>Unaudited</i>	31.12.2016 <i>Audited</i>
Contingent receivables		
From related entities due to:	61 784	70 075
Received guarantees and sureties	58 606	65 240
Bills of exchange received as collateral	3 178	4 835
Total contingent receivables	61 784	70 075
Contingent liabilities		
From other entities due to:	2 473 594	2 002 238
Provided guarantees and sureties	680 063	509 877
Promissory notes	583 043	547 720
Mortgages	99 000	99 000
Assignment of receivables	982 894	722 767
Assignment of rights under insurance policy	47 467	41 559
Security deposits	13 971	12 133
Other liabilities	67 156	69 183
Total contingent liabilities	2 473 594	2 002 239

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, 2017, except for the aforementioned contingent receivables and liabilities, the Company had contingent receivables in the amount of PLN 1,474 thousand (as compared to PLN 1,503 thousand as at December 31, 2016) 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 5,549 thousand as at September 30, 2017 (PLN 5,821 thousand as at December 31, 2016).

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, 2017 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.

Jarosław Tomaszewski
President of the Management Board

Paweł Nogalski
Vice-President of the Management Board

Marek Kacprzak
Vice-President of the Management Board

Maciej Sobczyk
Vice-President of the Management Board

Person responsible for preparing the report:

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Warsaw, November 14, 2017