TRAKCJA
CAPITAL GROUP

CONSOLIDATED ANNUAL REPORT

OF TRAKCJA CAPITAL GROUP

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

published pursuant to § 60(1)(3) of the Minister of Finance's Regulation of 29 March 2018 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (Journal of Laws of 2018, item 757)

Warsaw, 30 April 2019

This document is a translation

The Polish original should be referred to in matters of interpretation

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Dear Stakeholders

I encourage you to read the annual report of the Trakcja Group presenting the Group's performance in 2018.

The past year was full of numerous economic events which translated into the current condition of the industry. The record-high spending on the modernization of railway infrastructure was accompanied by a dynamic growth in prices of materials and subcontracting that has not been recorded in recent years. In these conditions, the implementation of agreements concluded in the years of the investment gap of 2015 - 2017, in the context of the absence of simultaneous and adequate revaluation of contracts, was reflected in a sharp decrease in profitability in the construction industry, in particular as regards public projects. To summarise this dynamic period, we have carried out a detailed review of contracts being executed, which brought about results that were much worse than in previous years, however, in line with last year's trends in the industry. At present, we are in the process of negotiations with banks and insurance companies, aimed at ensuring additional credit and guarantee financing and raising additional capital for the Company.

At the end of 2018, Trakcja PRKiI's order backlog increased by nearly 45% year on year and amounted to approximately PLN 2.2 billion, net. During this period, we signed agreements of a total net value exceeding PLN 1.5 billion, most of which exceeded investor budgets. This means that in the past year the company finalized the implementation of contracts concluded in the period of market collapse and began to perform contracts concluded on much more favorable terms. As at 31 December 2018, the Trakcja Group's construction order backlog stood at PLN 2,557 million[1].Its current value ensures full utilisation of production capacity in the current financial year, and participation in new tenders in 2019 will enable the Group to secure its operations in subsequent periods to an even greater extent.

As a consequence of the dynamic situation on the domestic market, our company has implemented a number of stabilisation measures, and their effects are gradually becoming noticeable. In order to ensure diversification in terms of industry and geography and to become independent from subcontractors, we have focused on the improvement of our own potential and expansion in other areas of the construction sector. We are expanding our market share in the building construction, road construction, as well as in the modernisation and conversion of tram infrastructure. After many years of preparations, since 2018 the largest urban centres with tram infrastructure have been announcing or are planning to announce further tenders. The power industry offers interesting prospects for us – we have been carrying out design and construction tasks for transmission networks, so far in the low and medium voltage range. We have already gained experience in photovoltaics and energy storage and we are looking forward to the dynamic growth of this segment in the years to come.

In the railway industry, we are launching a new range of services - maintenance services for specialist track machines in a recently opened facility in Bieńkowice near Wrocław. This is another and unique element of strengthening our potential in the industry. We aspire to enter other areas of the construction industry, such as hydrotechnics and airport infrastructure. Building on our experience in the implementation of the current EU perspective in Poland, we want to increase our presence on foreign markets – beyond the eastern and western borders and in Scandinavia.

1. *Data excluding the value of works attributable to consortium members*

In the year of the 70th anniversary of our business activity, we are counting on a new opening related to the launch of new areas of our operations, which requires the support of our stakeholders.

I am convinced that we deserve your trust.

Marcin Lewandowski

President of the Management Board

Chief Executive Officer

Trakcja PRKiI S.A.

TRAKCJA
CAPITAL GROUP

DIRECTORS' REPORT

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

IN 2018

This Directors' Report on the operations of Trakcja Capital Group and Trakcja PRKiI S.A. was prepared pursuant to § 70(1)(4), § 70(1)(6), § 70(1)(7) and § 71(1)(4), § 71(1)(6), § 71(1)(7) of the Minister of Finance's Regulation of 29 March 2018 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (Journal of Laws of 2018, item 757).

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The figures presented in this Directors' Report on the operations of the Group and the Issuer are presented in thousands of Polish zlotys, except for the items clearly indicated otherwise. Financial information contained in this report is derived from the consolidated and separate financial statements prepared in accordance with the International Financial Reporting Standards ("IFRSs") endorsed by the European Union, issued and effective as at 31 December 2018. We would also like to emphasise forward-looking statements (e.g. may, will, expect, consider, estimate), because they are based on certain assumptions subject to risk and uncertainty. Therefore, the Trakcja Group and Company are not responsible for such information.

1. STRUCTURE OF TRAKCJA CAPITAL GROUP

1.1. General information on the Group

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

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

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

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

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

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

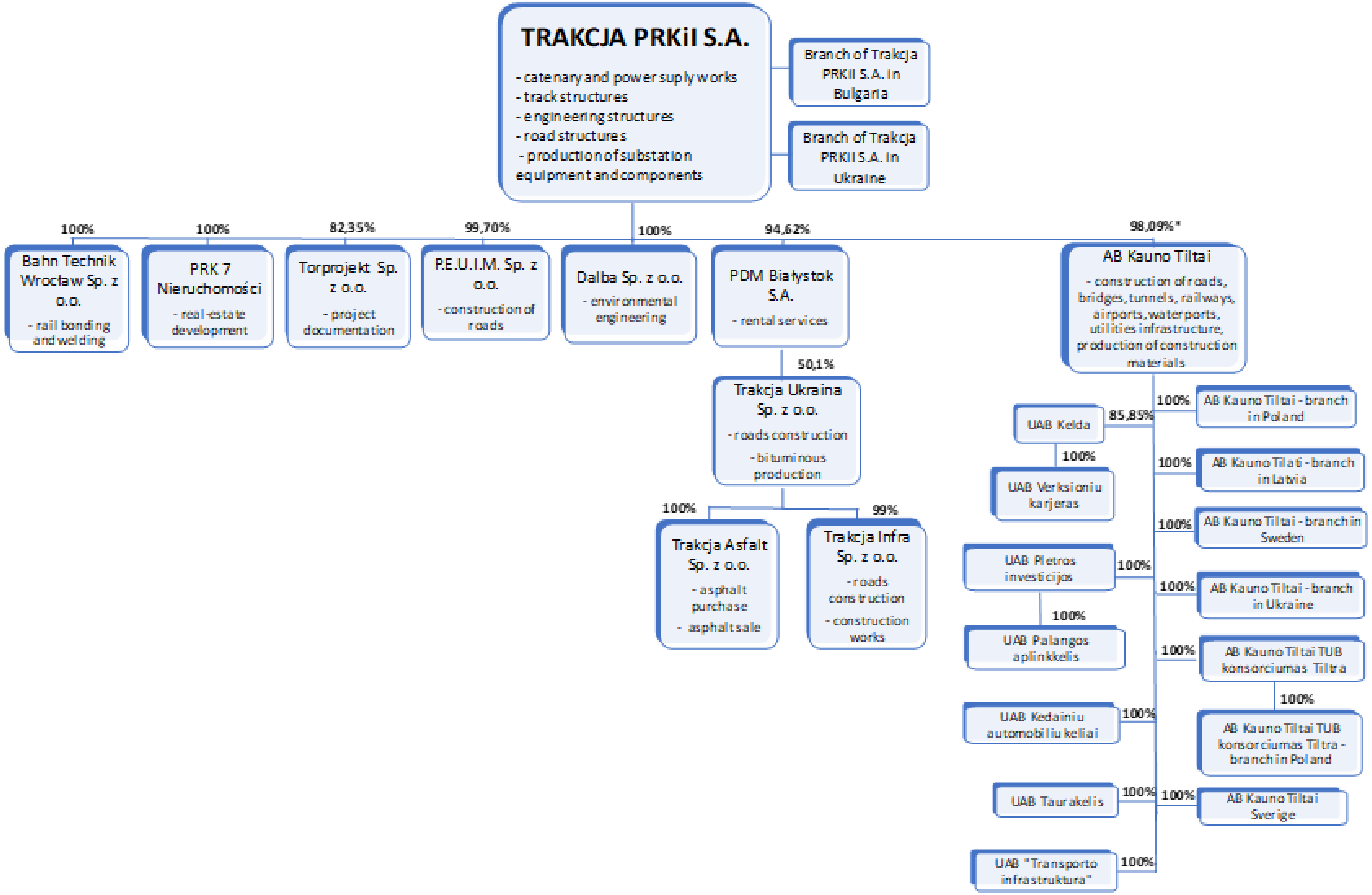
The long-term market practice has enabled the Group to develop management techniques for the projects performed, which ensure that the companies are able to complete the works assigned to them within the agreed schedules and that simultaneously the required quality is maintained and the special requirements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

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

The Company has experience in constructing and repairing roads in Poland and Lithuania. The Group performs comprehensive works as a general contractor together with reliable subcontractors or independently using its own capacity. In addition, the Group also performs specialised tasks such as laying road surfaces and construction of engineering facilities, drainage systems, lighting systems, sewage systems and infrastructure for pedestrians and cyclists. The Group has a bituminous mass production plant that manufactures for the purposes of the contracts implemented and is a reliable source of materials for external customers. In addition, the Group constructs traction substations for tram, trolleybus and rail lines, and also track section cabins, which are equipped with switching stations manufactured internally.

1.2. Structure of the Group

Trakcja PRKiI S.A. ("Trakcja PRKiI", "Company" or "Parent Company") is the parent company of Trakcja Group. The Group's composition and structure as at 31 December 2018 is presented in the diagram below.



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

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

As at 31 December 2018, the Group consists of the Parent Company (Trakcja PRKiI S.A.) and its subsidiaries.

Fully-consolidated entities:

PRK 7 Nieruchomości Sp. z o.o.

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

Torprojekt Sp. z o.o.

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

Bahn Technik Wrocław Sp. z o.o.

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

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

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

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

Dalba Sp. z o.o.

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

PDM Białystok S.A.

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

Establishment of Trakcja PRKiI S.A. in Bulgaria

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

AB Kauno Tiltai Group

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

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

AB Kauno Tiltai Group is composed of the following entities:

- UAB Kelda – a subsidiary with its registered office in Vievis (Lithuania); the company's subsidiary is:
  - UAB Verksioniu karjeras – a subsidiary with its registered office in Bagoteliu K (Lithuania);
- UAB Taurakelis – a subsidiary with its registered office in Tauragé (Lithuania);
- UAB Kedainiu Automobiliu Keliai – a subsidiary with its registered office in Kédainiai (Lithuania);
- TUB Konsorciumas Tiltra – a subsidiary with its registered office in Kaunas (Lithuania);
- UAB Pletros investicijos – a subsidiary with its registered office in Vilnius (Lithuania);
- UAB Palangos aplinkkelis – a subsidiary with its registered office in Vilnius (Lithuania) established to perform contracts in the framework of public-private partnerships;
- AB Kauno Tiltai Branch in Poland – a branch of AB Kauno Tiltai with its registered office in Białystok (Poland);
- AB Kauno Tiltai Branch in Latvia – a branch of AB Kauno Tiltai with its registered office in Rēzekne (Latvia);
- AB Kauno Tiltai Branch in Ukraine – a branch of AB Kauno Tiltai with its registered office in Kiev (Ukraine);
- AB Kauno Tiltai Branch in Sweden – a branch of AB Kauno Tiltai with its registered office in Norsborg (Sweden);
- AB Kauno Tiltai Sverige – a subsidiary with its registered office in Malmö (Sweden);
- AB Kauno Tiltai TUB konsorciumas Tiltra – branch in Poland
- UAB "Transporto infrastruktura" – a subsidiary with its registered office in Vilnius (Lithuania).

Moreover, Trakcja Group includes subsidiaries established in 2017 and having their registered offices in Ukraine: Trakcja Ukraina Sp. z o.o., Trakcja Infra Sp. z o.o., Trakcja Asfalt Sp. z o.o., an Establishment of Trakcja PRKiI S.A. in Ukraine.

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

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

On 8 June 2018, a Group company, AB Kauno tiltai, acquired 24.9% of shares in UAB Plestros Investicjios, as a result of which it holds 100% of shares in that company.

On 10 December 2018, the Issuer notified about the intention of AB Kauno Tiltai with its registered office in Lithuania to:

- to sell all shares in UAB Pletros investicijos with its registered office in Lithuania in which AB Kauno Tiltai holds 100% of shares;
- to transfer the rights and obligations, including the right to the receivables, of the Loan Agreement made between AB Kauno Tiltai and UAB Pletros investicijos

The sale of the above-mentioned company is an element of organizational optimization of the Trakcja Capital Group and will have a significant impact on the Group's financing structure, including a reduction in its debt level. On 26 April 2019, an agreement was signed between AB Kauno tital and SPV-39 UAB, as disclosed by the Parent Company in Current Report No 7/2019.

On 23 November 2018, the branch of AB Kauno Tiltai in Belarus was wound up.

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

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

The Parent Company has implemented the Integrated Management System which includes:

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

Due to changes in the organizational chart of the Company, amendments were made to the system documentation.

In June 2018, the supervisory audit of the Integrated Management System was carried out by TUV SUD auditors. The audit was concluded with a positive result. The certificate held by the Parent Company confirms the proper functioning of the three aforementioned systems in the Company. The OHSAS certificate is valid until 11 March 2021, while the ISO 9001 and 14001 certificates are valid until 22 July 2021.

In 2017 the Issuer was once again recognised as one of the sociably responsible companies listed on the Warsaw Stock Exchange (RESPECT INDEX). In the course of 2018, the Parent Company continued to implement the CSR strategy based on responsible leadership and management, social engagement, dialogue with stakeholders and social innovation. Through its activities, the Issuer endeavours to contribute to sustainable development from an economic, social and environmental perspective.

In 2018, the Parent Company adopted a new organisational chart which will enable more effective use of human capital and staff competences. This translates into the elimination of the middle management level.

During 2018 and between the balance sheet date and the publication of this report, there were changes in the composition of the Issuer's Management Board, as described in more detail in Section 6.4.

2. BUSINESS OF TRAKCJA GROUP

2.1. Key products, goods and services

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

Comprehensive modernisation of railway lines

Modernisation of the railway lines includes:

- development and agreement of concepts for all industries, preparation of the project construction documentation, detailed design documentation, obtaining of all permits and permissions and also the preparation of the as-built documentation,

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

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

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

Construction of buildings

Trakcja Group constructs:

- public utility buildings,
- industrial facilities.

Property development activities

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

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

Road infrastructure construction

These activities include:

- roads – construction and reconstruction of motorways, roads, streets, squares and car parks; services relating to road maintenance in winter and summer,

- bridges – construction and reconstruction of bridges, viaducts and flyovers,
- tunnels – construction and reconstruction of tunnels,
- airports – construction and reconstruction of airport runways and landing areas, air plane parks and special purpose areas.

Power engineering construction

These activities include:

- development of a concept, preparation of a design documentation along with the permits and transmission easements for the transmission power lines and HV substations,
- comprehensive network construction of electric power facilities,
- construction of specialised power systems in the industrial and public utility facilities,
- construction, maintenance and renovation of the road lighting network,
- provision of services relating to the power network diagnostics, along with its servicing and maintenance.

Other activities

Other activities include:

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

As at 31 December 2018, Trakcja PRKiI's construction order backlog stood at PLN 2,181 million (excluding the portion of revenue attributable to consortium members). In 2018, the Company signed construction contracts with a total value of PLN 1,563 million (excluding the value of work attributable to consortium members). As at 31 December 2018, the Company's order backlog ensures full utilisation of production capacity in the next financial year. Participation in new tenders in 2019 will enable the Company to secure its order backlog for subsequent periods to an even greater extent.

As at 31 December 2018, the Trakcja Group's construction order backlog stood at PLN 2,557 million (excluding the portion of revenue attributable to consortium members). In 2018, the Trakcja Group companies signed construction contracts with a total value of PLN 2,120 million (excluding the value of work attributable to consortium members). As at 31 December 2018, the Trakcja Group's order backlog ensures full utilisation of production capacity in the next financial year. Participation in new tenders in 2019 will enable the Group to secure its order backlog for subsequent periods to an even greater extent.

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

The largest contracts executed by Trakcja Group in 2018 are presented in the table below (the contract amount indicated taking into account the value of work to be performed by the consortium members):

Lp.	Name of the contract	Net amount of the contract (PLN million)	Type of work
1.	Project and construction of the S61 express road in Szczuczyn-Budzisko (National border) with the division into tasks: Task No. 2: section Ełk Południe node - Wysokie node (along with the wyplot along the national road 16)	558	road
2.	Modernization of the E30/C-E30 railway line on the Kraków – Rzeszów section, stage III (Dębica - Sędziszów Małopolski)	423	railway
3.	Designing and execution of construction works as part of the project "Works on railway lines No. 140, 148, 157, 159, 173, 689, 691 on the section Chybie - Żory - Rybnik - Nędza / Turze"	392	railway
4.	Execution of construction works in LCS Łowicz – section: Sochaczew – Żychlin and section: Placencja – Łowicz Główny as part of the task "Works on the E20 railway line on the Warszawa-Poznań section – other works, section: Sochaczew-Swarzędz"	391	railway
5.	Development of detailed designs and execution of works for LCS Warszawa Okęcie as part of the Project POIiŚ 7.1-19.1.a. pn. "Modernization of the railway line No. 8, section Warsaw Okęcie - Radom (LOT A, B, F)"	388	railway
6.	Design and execution of works within the framework of the project construction of the Szczecin Metropolitan Railway using the existing sections of railway lines No. 406, 273, 351 - task A pn. "Modernization of railway line No. 406 on the section Szczecin Główny - Police"	376	railway
7.	Design and execution of construction works on the E20 railway line, section: Siedlce-Terespol within the task "Works on the E20 railway line on the Siedlce - Terespol section, stage III - LCS Terespol"	372	railway
8.	Modernizacja linii kolejowej E 30/C-E 30, odcinek Kraków – Rzeszów, etap III; na odcinku Sędziszów Małopolski – Rzeszów Zachodni w km 133,600 – 154,900	305	railway
9.	Design and construction of the S-5 expressway on the section from the Szubin junction (with the junction) to the Jaroszewo junction (with the junction) of about 19.3 km in length	288	road
10.	Implementation of construction works under the Tender No. 1 - Modernization of the Jaworzno Szczakowa - Trzebinia section (km 1,150 - 0.000 line No. 134, km 15,810 - 29,110 lines No. 133) as part of the project "Modernization of the E 30 railway line, Zabrze section - Katowice - Kraków, stage IIb "	272	railway
11.	"Reconstruction of track layouts along with accompanying infrastructure on the E59 railway line section Poznań Główny - Rokietnica" as part of the project "Works on the E 59 railway line on the Poznań Główny - Szczecin Dąbie section" (Updated contract value, not including the contingent amount)	269	railway
12.	Task A: Preparation of project documentation and execution of the construction works under the project „Revitalization of railway line no. 405, section: voivodeship border – Słupsk–Ustka", Task B: Design and building of railway traffic control equipment from railway station Szczecinek km 71,480 to km 104,515 within the project „Increase of safety and liquidation of operating dangers at the rail network"	178	railway
13.	Modernization of the E59 railway line on the Wrocław - Poznań section, stage III - section Czempiń - Poznań	164	railway
14.	Expand the road E67 (VIABALTICA) of the trans-European network. Development of the Kaunas-Marijampole section. Stage I. Reconstruction of the A5 road section of Kaunas-Marijampole-Suwałki from 23.40 to 35.40km		
15.	Designing and execution of works under the project construction of the Szczecin Metropolitan Railway using the existing sections of railway lines No. 406, 273, 351 - Task B pn. "Modernization of selected passenger infrastructure on railway lines No. 273, 351 and 401"	105	railway
16.	Order regarding the design and execution of construction works - optimization of the energy transmission network in north-eastern Lithuania and its preparation for the operation of a synchronous transmission network in continental Europe (order No. 189494)	103	energetic

2.2. Sales structure

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

Structure of the Company's sales

	2018		2017	
	value	share	value	share
Railway works	597 662	59,5%	633 583	73,8%
Road works	312 917	31,2%	162 593	18,9%
Bridge works	4 520	0,5%	5 498	0,6%
Tramway works	15 698	1,6%	2 371	0,3%
Energy works	44 678	4,4%	30 370	3,5%
Production	17 334	1,7%	8 690	1,0%
Other areas of activity	11 486	1,1%	15 176	1,8%
Total revenues from sales	**1 004 295**	**100,0%**	**858 281**	**100,0%**

Structure of the Group's sales

	2018		2017	
	value	share	value	share
Railway works	647 463	41,5%	702 778	51,1%
Road works	712 200	45,6%	496 288	36,1%
Bridge works	32 961	2,1%	25 993	1,9%
Cubature works	4 508	0,3%	0	0,0%
Tramway works	19 728	1,3%	3 124	0,2%
Energy works	44 678	2,9%	30 370	2,2%
Production	50 262	3,2%	32 366	2,4%
Other areas of activity	48 848	3,1%	83 372	6,1%
Total revenues from sales	**1 560 648**	**100%**	**1 374 291**	**100%**

2.3. Markets and supply sources

In 2018, the Group provided its construction and assembly services on the Polish and Lithuanian markets.

Geographical structure of sales in 2018 and 2017 is presented in the table below.

	2018		2017	
	value	share	value	share
Domestic	1 118 687	71,7%	948 270	69,0%
Abroad	441 961	28,3%	426 021	31,0%
Total revenues from sales	**1 560 648**	**100%**	**1 374 291**	**100%**

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

The structure of customers indicates that the Group is dependent on PKP PLK S.A. whose share in consolidated sales in 2018 was 39%. Since the establishment of the Group, it has been the main customer in the customer structure. The second largest customer – the Lithuanian Road Administration – held 8% share in the structure of consolidated revenue in the same year. None of these counterparties has any formal links with the Group.

The structure of suppliers in the period under review shows that the Group is not strongly dependent on any of its counterparties. In 2018, no supplier accounted for more than 10% of the value of materials and services purchased by the Group.

2.4. Events of 2018

Significant construction contracts	CR
23.01.2018 The Company, acting as the Leader of the Consortium with AB Kauno Tiltai - as the Consortium Partner - has today signed a contract with the Municipal Office of the City of Gorzów Wielkopolski and with Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o. based in Gorzów, covering the execution of construction works envisaged within the project of the development of a "System of Sustainable Municipal Transport in Gorzów Wielkopolski", related to the municipal transport system, including: the renovation of tramway tracks, construction of tramway platforms and roads - in accordance with the contractual scope. The net value of the contact is PLN 45,323,568.89. The works are to be concluded within 19 months beginning with the date of the signing of contract.	2/2018
10.04.2018 (AB Kauno tiltai) Company's subsidiary signed an agreement with AB Litgrid regarding project for 'procurement of design and contract works – optimisation of the North-East Lithuania electricity transmission grid and its preparation for operation in the synchronous grid of Continental Europe'. The Agreement has been concluded under a consortium and the agreement's net value amounts to EUR 23,920,000 (PLN 100,385,064). The planned net share of AB Kauno tiltai amounts to EUR 17,020,000 (PLN 71,427,834). The works are to be completed within 36 months from the date of the commencement of work.	4/2018
19.07.2018 The Company, acting as the Leader of the Consortium has today signed a contract with the General Directorate of National Roads and Motorways with its registered office in Warsaw, covering the execution of construction works envisaged within the project of the development of a "Design and construction of the S61 express road Szczuczyn - Budzisko (Greek state) with the division into tasks: Task No. 2: section Ełk Południe junction - Wysokie junction (along with an outlet within national road 16)" (hereinafter the "Agreement"). The net value of the contact is PLN 557.7 million. The works are to be completed within 29 months beginning with the date of the conclusion of the agreement, excluding winter periods during the performance of works.	16/2018
24.07.2018 The Company has signed today two contracts with the PKP PLK S.A. with its registered office in Warsaw, covering the execution of design and construction works envisaged within the project of the development of "Construction of Metropolitan Railway in Szczecin with use of current existed sections of railway lines no. 406, 273, 351", which total net value amounts to PLN 481.2 million (hereinafter the "Agreements").	17/2018
30.08.2018 The Company has today signed a contract with PKP PLK S.A. with its registered office in Warsaw, covering the execution of construction works envisaged within the project of the development of a "Reconstruction of track systems along with accompanying infrastructure on the E59 railway line, Poznań Główny - Rokietnica section" under the project „Works on the E59 railway line on the section Poznań Główny - Szczecin Dąbie" (hereinafter the "Agreement"). Net value of the contract is PLN 292,2 million. The agreement provides for an advance payment of 10% of the accepted contractual amount, which will be paid within 21 days from the date of submitting the application for advance payment.The works being the sucject of the Agreement shall be carried out within 23 months from the works commencement date (the next day following the signing of the Agreement by the last of the Parties).	18/2018

Other	CR
12.01.2018 r. The Company hereby makes public the dates of publication of periodic reports in 2018.	1/2018
09.05.2018 The Company publishes the Company's and Trakcja Capital Group's financial results for the period of 3 months ended on 31 March 2018.	6/2018
23.05.2018 The Management of the Company has approved a resolution on distribution of profits for 2017, recommending the Annual General Meeting of Shareholders of the Company to allocate the profit of PLN 32,039,476.84 as follows: - the amount of PLN 5,139,954.80 (i.e. PLN 0.1 per one share) for the payment of dividend, - the amount of PLN 26,899,522.04 for supplementary capital.	7/2018
24.05.2018 The Supervisory Board passed a resolution in which it gave a positive opinion on the recommendation of the Management Board for the Ordinary General Meeting to following division of the profit from the period 1 January 2017 to 31 December 2017 in the amount of PLN 32 039 476,84: - the amount of PLN 5 139 954,80 (i.e. PLN 0.1 per share) for dividend payment; - the amount of PLN 26 899 522,04 for supplementary capital.	8/2018
24.05.2018 The Company's Supervisory Board adopted a resolution on the appointing the present Management Board for a new joint term of office, which will commence on the date of the General Meeting of the Company.	9/2018
24.05.2018 The Management of the Company convenes the Ordinary General Meeting of Shareholders of Trakcja PRKiI S.A. on 26 June 2018 at 9 am.	10/2018
26.06.2018 The Annual General Meeting of Shareholders of the Company adopted a resolution according to which the Company's profit for 2017 in the amount of PLN 32 039 476,84 shall be allocated as follows: - the amount of PLN 5,139,954.80 (i.e. PLN 0,1 per share) to dividend payment, - the amount of PLN 26,899,522.04 to increase the supplementary capital.	12/2018
26.06.2018 The Management Board of the Company presented a list of shareholders holding at least 5% of the total number of votes at the Annual General Meeting of Shareholders held on 26 June 2018 in Warsaw.	13/2018
26.06.2018 The Management Board of the Company published the wording of the resolutions adopted at the Annual General Meeting of Shareholders of the Company held on 26 June 2018.	14/2018
03.07.2018 The Company received a notification from the shareholder Nationale-Nederlanden Otwarty Fundusz Emerytalny about a reduction in the number of shares held below 5% of votes in the general meeting of the Company.	15/2018
16.10.2018 The Company received a notification from PZU SA Pension Society (PTE PZU SA) acting on behalf of the PZU Open Pension Fund "Złota Jesień" (OFE PZU), that due to the closure of Pekao Otwarty Fundusz Emerytalny (Pekao OFE) on October 12, 2018, resulting in the transfer of all Pekao OFE assets on that day to PZU Open Pension Fund and entering PZU's Open Pension Fund into all rights and obligations of Pekao OFE, until now the share of OFE PZU in the total number of votes in the Company increased and exceeded the threshold of 10% of the total number of votes.	19/2018
26.10.2018 The Management Board of the Company adopted resolutions on the intention to sell selected real property and use obtained from the sale funds to optimize the structure of external financing by financing the demand for working capital to a larger extent with own funds.	20/2018
29.10.2018 The Supervisory Board of the Company agreed to enter into property sale agreements listed in reference to Current Report No. 20/2018 of October 26, 2018.	21/2018

30.10.2018 The Management Board of the Company has called the Extraordinary General Meeting of Shareholders of Trakcja PRKiI S.A. on November 30, 2018 at 9 am.	22/2018
30.11.2018 The Management Board of the Company published the wording of the resolutions adopted by the Extraordinary General Meeting of the Company held on November 30, 2018.	23/2018
30.11.2018 The Management Board of the Company presented a list of shareholders holding at least 5% of the total number of votes at the Extraordinary General Meeting of Shareholders held on 30 November 2018 in Warsaw.	24/2018
The Management Board of the Company provided the correct attachment with the list of shareholders holding at least 5% of the total number of votes at the Extraordinary General Meeting of the Company, which was held on November 30, 2018 in Warsaw.	24/2018K
10.12.2018 The Supervisory Board of the company AB Kauno Tiltai autorise: -to sell the shares in the subsidiary UAB "Plėtros investicijos" with its registered office in Lithuania ("Company"), in which AB Kauno Tiltai holds 100% of shares; -to transfer the rights and obligations, including the right to the receivables, of the Loan Agreements made between AB Kauno Tiltai and the Company.	25/2018
27.12.2018 The Company signed a sale agreement based on which Trakcja PRKiI sold to Grupa Lotnicza 100 Limited liability company based in Wrocław: right of perpetual usufruct in a real property situated at 100 Lotnicza Street in Wrocław constituting a plot of land no. 3/5 with an area of 13,1540 ha, a plot of land no. 3/4 with an area of 0,2546 ha, including the ownership of the buildings and installations located on plot of land no. 3/5 constituting a separate real estate, for which the District Court for Wrocław - Krzyków in Wrocław, IV Land and Mortgage Register Department keeps the land and mortgage register number WR1K/00103043/5, for a price of PLN 53,000,000.00 (in words: fifty three million zlotys) gross, which will be paid to the bank account no later than September 29, 2019.	26/2018

Changes in the Management Board	**RB**
09.03.2018 The Company received from Mr Jarosław Tomaszewski a statement of resignation from the function of the President of the Management Board of the Company and the Member of the Management Board of the Company with the effect for the day June 30th, 2018.	03/2018
27.04.2018 The Company informed that under the agreement between Mr. Jarosław Tomaszewski - the President of the Management Board and the Supervisory Board, Mr. Jarosław Tomaszewski resigned from the position of the President of the Management Board, Member of the Management Board and Chief Executive Officer. Mr. Jarosław Tomaszewski will perform the indicated functions until April 27, 2018.	05/2018
07.06.2018 The Supervisory Board of the Company adopted a resolution on the appointing Mr Marcin Lewandowski as President of the Management Board as of 1 September 2018.	11/2018

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

Long-term contracts for construction services performed by the companies within the Group have a major impact on their financial performance in 2017 and in the following years. The most considerable contracts performed in the course of 2017 are listed in Note 2.1 hereof. Information regarding the most significant contracts for construction services concluded in 2017 is presented in Note 2.6 hereof. Significant events after the balance sheet date are described in Note 5.7 hereof.

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

2.6. Significant contracts

2.6.1. Significant construction contracts

Key construction contracts signed by the Trakcja Group companies in 2018 (the contract amount indicated taking into account the value of work to be performed by the consortium members):

No.	Name of the contract	Net amount of the contract (PLN million)	Company	The type of contract
1.	Project and construction of the S61 express road in Szczuczyn-Budzisko (National border) with the division into tasks: Task No. 2: section Ełk Południe node - Wysokie node (along with the wyplot along the national road 16)	558	Trakcja PRKiI S.A.	road
2.	Design and execution of works within the framework of the project construction of the Szczecin Metropolitan Railway using the existing sections of railway lines No. 406, 273, 351 - task A "Modernization of railway line No. 406 on the section Szczecin Główny - Police"	376	Trakcja PRKiI S.A.	railway
3.	"Reconstruction of track layouts along with accompanying infrastructure on the E59 railway line, Poznań Główny - Rokietnica section" as part of the project "Works on the E 59 railway line on the section Poznań Główny - Szczecin Dąbie"	292	Trakcja PRKiI S.A.	railway
4.	Designing and execution of works under the project construction of the Szczecin Metropolitan Railway using the existing sections of railway lines No. 406, 273, 351 - Task B "Modernization of selected passenger infrastructure on railway lines No. 273, 351 and 401"	105	Trakcja PRKiI S.A.	railway
5.	Order regarding the design and execution of construction works - optimization of the energy transmission network in north-eastern Lithuania and its preparation for the operation of a synchronous transmission network in continental Europe (order No. 189494)	100	AB Kauno tiltai	energetic
6.	Execution of design documentation and construction works related to the construction of the Warszawa Główna station as part of the POIiŚ 5.1-13 project under the name "Works on the mid-term line in Warsaw on the section Warszawa Wschodnia - Warszawa Zachodnia"	81	Trakcja PRKiI S.A.	railway
7.	Extension of the provincial road No. 211, section C from the city of Mojusz to Kartuzy	68	Trakcja PRKiI S.A.	road
8.	Design and implementation of reinforcement of railway embankment in specific locations of railway line No. 9 (E65) in the area of LCS Malbork	67	Trakcja PRKiI S.A.	railway
9.	Reconstruction works in Kaunas (stages I, II, III, IV)	57	AB Kauno tiltai	road
10.	Expansion of voivodship road No. 190 on the section from the intersection with voivodeship road No. 188 in the town of Krajenka to the intersection with the national road No. 10 - stage I in the system design and build	52	Trakcja PRKiI S.A.	road
11.	"The system of sustainable urban transport in Gorzów Wlkp." - reconstruction of the road along with the reconstruction of the track of Warszawska St. and Sikorski St.	45	Trakcja PRKiI S.A.	urban
12.	Other contracts	734	-	various
	TOTAL	**2 535**		

2.6.2. Insurance contracts

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

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

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

2.6.3. Cooperation agreements

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

2.7. Key deposits and capital investments

2.7.1. Investments in tangible and intangible assets

In 2018, investment expenditure in the Company and the Group amounted to PLN 46,346 thousand and PLN 61,336 thousand, respectively.

The following investment projects were completed in 2018:

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

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

The following investment projects were completed in 2017:

	Acquisition for cash	Leasing	Credits and loans	Total
Development investments	11 553	8 071	-	19 624
Replacement investments	1 002	162	-	1 164
Inwestycje modernizacyjne	1 413	-	-	1 413
Total	**13 968**	**8 233**	**-**	**22 201**

	Acquisition for cash	Leasing	Credits and loans	Total
Development investments	12 426	8 196	7 721	**28 343**
Replacement investments	18 657	1 337	-	**19 994**
Modernization investments	4 216	-	2 500	**6 716**
Total	**35 299**	**9 533**	**10 221**	**55 053**

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

- "Civil engineering – Poland" – PLN 51,679 thousand (in 2017: PLN 35,193 thousand);

- "Construction, engineering and concession agreements – Baltic countries" – PLN 9,609 thousand (in 2017: PLN 19,860 thousand);

- other segments – PLN 48 thousand (in 2017: PLN 0 thousand).

The key project included in the development expenditure was the establishment of the new equipment depot in Bieńkowice.

The major replacement expenditure includes the replacement of construction equipment (excavators, loaders, rollers, pavers, asphalt pavers, milling machines and vehicles such as delivery vans) and IT equipment.

Key modernization expenditure includes expenditure on modernisation of buildings, laboratories and warehouses.

In 2019, the Company and the Group plan to incur capital expenditure of approximately PLN 11,511 thousand and PLN 20,963 thousand, respectively. These projects are to be financed as follows:

Cash	1 011
Financial leasing	10 500
Total	**11 511**

Cash	6 573
Financial leasing	14 390
Total	**20 963**

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

2.7.2. Equity investments of the Group, including equity investments outside the Group and methods of their financing

In 2018, the Group made equity investments.

On 8 June 2018, a Group company, AB Kauno tiltai, acquired 24.9% of shares in UAB Plestros Investicjios, as a result of which it holds 100% of shares in that company.

2.7.3. Strategy and development of the Group

In 2018, the Group successfully continued its organisational and legal restructuring process in order to achieve synergies and enhance its operational efficiency and financial power.

In 2019, Trakcja Group expects to continue to improve the Group's performance, guided by the following strategic principles:

- development through organic growth;
- implementation of the contract-orientated organisational structure;
- enhancement of effectiveness and efficiency through improved organisation of works, better use of synergies, and incentive schemes;

- significant improvement in cash flow management;
- refinancing of existing bank debt;
- equity increase at the Parent Company;
- intensified use of its own resources during the performance of contracts;
- increased emphasis on innovation which will contribute positively to the profitability of contracts;
- sale of additional non-operating assets (discussed in more detail in Note 10 to the Separate financial statements);
- selective approach to the performance of contracts under consortium agreements.

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

Active policy on liquidity management of the Parent Company

In addition to activities that contribute to the improvement of future financial performance, the Parent Company's Management Board is primarily focused on the Company's liquidity situation. The Parent Company pursues an active liquidity management policy by monitoring liquidity on an ongoing basis in the short and long-term perspective, aiming at maintaining a stable level of available financing. In order to maintain liquidity, the Parent Company undertakes actions aimed at winning contracts which provide for advance payments. In addition, the Parent Company pursues an active policy of maintaining a low level of receivables, managing inventories and selling key materials to the ordering party at the initial stage of a contract. The Parent Company places great emphasis on shortening the period between the completion of works and their invoicing. The Parent Company's activities related to the liquidity situation are described in Note 64 to the consolidated financial statements for 2018.

Active participation in tender procedures

The Parent Company will continue to actively participate in tender procedures for the railway and road construction markets, currently characterised by a smaller number of participants. Decreased pressure from competitors results from saturation of the market with projects in relation to the contracting potential of construction companies in Poland. The current market trend shows that bids from contractors that significantly exceed investor budgets are more and more frequently accepted by contracting authorities.

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

In 2019 and beyond, the Management Board of Trakcja PRKiI intends to focus its efforts on the Polish market for construction and assembly services in the railway sector and further consolidate its position on the road construction market This objective can be achieved thanks to the effective organisational and financial support for the tendering and contracting area and for the contract implementing area through the establishment of new units, including the Production Preparation and Project Optimisation Department.

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

Strengthening the Group's position on other markets

In 2017 the Group established branches of the Parent Company and AB Kauno Tiltai in Ukraine. In addition, Trakcja Ukraina Sp. z o.o. was established in Ukraine along with two subsidiaries: Trakcja Infra Sp. z o.o. and Trakcja Asfalt Sp. z o.o. In 2018, contracts for the renovation of streets in Dnipro were executed. In 2018, sales of contracted construction services reported by the Ukrainian subsidiaries reached PLN 53 million.

Moreover, in 2018 the Parent Company intensively continued its operations on the German market. eHighway, the first contract in western Germany, was successfully completed. The works included the assembly of overhead contact line elements on two five-kilometre sections of the A5 motorway. The company's entry into the project implementation phase required the registration of Trakcja PRKiI S.A. in relevant offices and institutions in Germany (SOKA Bau, Tax Office, Customs Office, Chamber of Crafts and Trades IHK, Chamber of Commerce and Industry AHK, etc.), which increases the implementation efficiency of subsequent projects. The formal requirements related to the operation of Trakcja PRKiI S.A. in Germany were also met. The VOB building certification was maintained in 11 categories and procedures were initiated to extend the scope of certification to other industries.

Diversification of the Group's business

To diversify its business, in 2018 the Group once again became involved in municipal projects related to the modernisation of tram and trolleybus infrastructure. The Parent Company signed contracts for the implementation of such projects.

2.8. Outlook for the Group

Despite the issues described in Note 64 to the consolidated financial statements, the Management Board positively assesses the Group's growth outlook for 2018. As at 31 December 2018, the order backlog stood at PLN 2,557 million (excluding the portion of revenue attributable to consortium members).

Trakcja Group has been consistently expanding its competencies in various sectors of infrastructural construction. In 2018, the Parent Company saw a significant increase in the scale of its operations. The Parent Company continues to actively participate in tender procedures for the railway and road construction markets, currently characterised by a smaller number of participants. Decreased pressure from competitors results from saturation of the market with projects in relation to the contracting potential of construction companies in Poland. The current market trend shows that bids from contractors that significantly exceed investor budgets are more and more frequently accepted by contracting authorities. According to the updated National Rail Programme adopted by the Council of Ministers on 23 November 2016, the value of rail construction projects is expected to exceed PLN 60 billion by 2023. The Group will also participate in tenders for road construction contracts. The expected value of the projects implemented under the National Roads Construction Programme and the projects carried out by the local road infrastructure managers is PLN 107 billion. In addition, in the preparation for the potential contracts awarded under the local government programmes, the Parent Company established a structure of regional road offices in six different locations in Poland. The Parent Company has started its expansion into the urban market of tram transport services and simultaneously focuses on the further development on the energy market, in particular, in the area of constructing and modernising transmission lines and of supplying electricity to facilities.

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

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

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

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

- Labour market situation in Poland and Lithuania.
- Changes in exchange rates, in particular of the euro.
- The impact of the Central Bank's monetary policy on changes in interest rates on loans.
- Timeliness of payment of liabilities by customers. If liabilities are not repaid on time, the Company's financial liquidity may deteriorate.
- A decrease in the number of entities participating in tenders on the Polish railway market.
- Changes in legal regulations designating the scope of the Group's activities, including tax regulations and provisions of law regarding any other public charges.
- Level of adjustment of value of construction contracts.

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

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

2.10. Risk factors and threats

In its business activities, Trakcja Group is exposed to various risks that can be broken down into the following groups:

- Industry risk.
- Contract completion risk.
- Financial risk.

Industry risk

The Group is exposed to a risk of growing competition. The rail and road construction markets in Poland and in Baltic States, where the Company carries out its activities, are attractive due to the expected significant capital expenditure. Entry barriers to the rail and road construction market in Poland and in Baltic States are not high, and therefore the number of new market participants is continuously growing. In addition, a key factor that has an effect on the Trakcja Group's market position is the financial plans of the Polish and Lithuanian governments with regard to the modernisation of infrastructure.

This industry risk may have a crucial impact on the Group's development perspectives and its financial situation. A competitive advantage of Trakcja Group is the 70-year market practice of the Group companies, which allowed the Group to develop the work order completion systems of high quality, highly appreciated by the Partners. The Group's main attributes include its ability to provide for the comprehensive performance of projects within its own capacity in all industries (railway track works, engineering facilities and overhead contact lines), its portfolio of contracts awarded and:

- its highly qualified management along with the customer-orientated team,

- its wide experience of professional performance and coordination of works that are completed in a timely manner and according to the highest European standards,
- its modern machinery.

The Group has a competitive advantage over many companies, and its position on the market of services relating to the rail and road infrastructure both in Poland and in Baltic States is grounded and stable. The aforementioned strengths of the Company mitigate the risk of growing competition.

Contract completion risk

An inherent risk related to the Trakcja Group's activities is the contract completion risk. This risk may be affected by the following factors: failure to obtain administrative decisions provided for, in particular, by the provisions of the Construction Law, the Code of Administrative Procedure or the Environmental Protection Law by the required deadlines; changes in the prices of materials and raw materials; changes in the prices for services provided by subcontractors; failure to complete or delay in completion by the subcontractors of the works necessary for the commencement of the project implementation; underestimation of costs; potential penalties for improper performance of contracts; adverse weather conditions. The risk of cost underestimation may occur when works required for the order to be completed and their price are difficult to identify at the preparation stage of a tender by the Group. When performing the construction contracts awarded, the Group company concludes agreements with subcontractors usually after the signing of the agreement with the investor, which may result in risk that the price of service provided for the Group by the subcontractors will be higher than the price forecast at the valuation of a given contract and at its signing. Prices in the agreements with the investor are fixed and cannot be changed during the duration of the contract. Trakcja Group bears a risk of non-compliance with the deadlines for the completion of the construction contracts awarded and the retention bonds granted, which in turn may result in the investor being entitled to take advantage of the collateral established or to impose contractual penalties. The Group is also exposed to a risk of potential disputes regarding the proper or untimely completion of the aforementioned contracts. The aforementioned factors may have an adverse impact of the Issuer's financial performance.

The Issuer's Management Board takes certain measures aimed at mitigating the aforementioned risks, for example, through the implementation of a modern contract management system that allows for budgets and schedules to be managed for many large projects implemented at the same time, based on the detailed data entered in the system in real time. In addition, the Group continuously monitors the prices for services provided by subcontractors in order to make sure that the parameters of the contracts made are adjusted accordingly to the duration of the contracts and their value in market terms. Thanks to the initiative of implementing a centralised procurement system for all the implemented projects and all the organizational support services, the Group expects to achieve essential and permanent cost savings and to optimise its purchases. Furthermore, the long-term market practice has enabled Trakcja Group to develop management techniques for the projects performed, which ensure that the Group companies are able to complete the works assigned to them within the agreed schedules and that simultaneously the required quality is maintained and the special requirements of investors are met.

Financial risks

The Group is exposed to a financial risk which comprises mainly a risk of financial agreements and a liquidity risk. The risk of financial agreements results from the fact that both banks (in the area of loans and contract guarantees) and insurance companies (in the area of contract guarantees) may reduce the availability of sources of funding and other financial instruments which may in turn adversely affect the performance of contracts. In 2017 the Group's ability to acquire sources of funding for guarantee products remained unchanged. The Group monitors the capital structure using the financing structure. The ratios analysed by the Group allow for the good credit rating to be maintained and confirm that the Trakcja Group's capital structure supports its operating activities.

Key factors necessary for an insolvency risk to be analysed are the level of cash flows, the amount of cash and the liquidity ratios. The Group monitors the cash at hand and maintains both the external debt and the financial liquidity at a safe level. Any temporary cash surpluses are invested in short-term bank deposits. In order to avoid any potential threats in the future and to minimise the liquidity risk, the Group develops longand short-term analyses and forecasts which allow for the Group's cash requirement to be defined. As a result of such actions the Company is able to plan in advance its inflows and outflows and to determine an optimal level of cash and method for financing its future expenses.

Any other factors, except for the aforementioned ones, which may cause fluctuations in prices of shares in

Trakcja PRKiI, include the following:

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

The Issuer's Management Board, by keeping in contact with the Company's customers, consortium partners, subcontractors, banks and insurance companies, is primarily focused on preventing the materialisation of all these risks. These risks are managed by the most senior management of the Group.

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

3.1. Group's financial performance in 2018

3.1.1. Consolidated income statement of Trakcja Group

CONSOLIDATED PROFIT & LOSS ACCOUNT	1.01.2018 - 31.12.2018 *Audited*	1.01.2017 - 31.12.2017 *Audited*	Change	Change %
Sales revenues	1 560 648	1 374 291	186 357	14%
Cost of goods sold	(1 644 890)	(1 280 956)	(363 934)	28%
Gross profit (loss) on sales	**(84 242)**	**93 335**	**(177 577)**	**-190%**
Cost of sales, marketing and distribution	(5 936)	(5 430)	-506	9%
General and administrative costs	(58 329)	(50 991)	(7 338)	14%
Other operating revenues	58 115	4 872	53 243	1093%
Other operating costs	(2 457)	(3 668)	1 211	-33%
Goodwill impairment	(24 243)	-	(24 243)	-
Operating profit (loss)	**(117 092)**	**38 118**	**(155 210)**	**-407%**
Financial revenues	4 153	5 888	(1 735)	-29%
Financial costs	(14 465)	(10 879)	-3 586	33%
Gross profit (loss)	**(127 404)**	**33 127**	**(160 531)**	**-485%**
Income tax	17 232	(1 084)	18 316	-1690%
Net profit (loss) for the period	**(110 172)**	**32 043**	**(142 215)**	**-444%**

In 2018, Trakcja Group's revenue amounted to PLN 1,560,648 thousand, up 14% year on year. Over the 12 months of 2018, the cost of sales increased by 28% to PLN 1,644,890 thousand.

The Group's gross result on sales in 2018 amounted to PLN -84,242 thousand and was lower by 190% than the profit earned in the corresponding period. The gross margin on sales in the period under review stood at -5.4% and was lower than in the corresponding period of the previous year, i.e. 6.8%.

The Parent Company updated its contract budgets (in accordance with CR 3/2019). The effects of the remeasurement were recognised in the financial statements for 2018. Contracts for which margins were reduced were almost entirely acquired in the period until mid-2017, characterised by high pressure on the value of bids as a result of a prolonged investment gap. A significant part of expenses related to above mentioned contracts on which the margins were updated was incurred until 31 December 2018, in line with the progress of completion of the works. The impact on the level of the presented results of the Company was caused by the increased level of cost, which was impossible to predict on the date of signing contracts and the extension of duration of works. The performance in 2018 presented above was also affected by the increase in prices of infrastructural construction materials, subcontracting services and payroll costs. Furthermore, the Parent Company incurs costs related to the diversification of activities in the commercial power industry market and re-entry into the tram segment (urban market). Moreover, the Parent Company continues to prepare its operations on foreign markets, where selected investment programmes extend to 2030. Additionally, the Group's performance was affected by the change in the structure of the Lithuanian companies' order backlog.

Selling, marketing and distribution expenses reached PLN 5,936 thousand and were higher by 9% year on year. General and administrative expenses stood at PLN 58,329 thousand and increased by 14% or PLN 7,338 thousand over the previous year. The increase in general and administrative expenses was driven by a rise in actuarial provisions for employee benefits at the Parent Company by PLN 1,806 thousand. Another reason for the increase in general and administrative expenses in the reported period were one-off compensation payments to the former President of the Parent Company's Management Board in the amount of PLN 1,173 thousand.
Other operating revenue for the period of 12 months of 2018 amounted to PLN 58,115 thousand and increased by PLN 53,243 thousand year on year. Other operating expenses in 2018 stood at PLN 2,457 thousand and were lower by PLN 1,211 thousand than in the previous year. Net other operating revenue/expenses increased by PLN 54,455 thousand year on year. In 2018, the Parent Company recognised income from the sale of perpetual usufruct right to real estate and ownership right to buildings and equipment located on the real estate at ul. Lotnicza 100 in Wrocław for the gross price of PLN 53,000 thousand (see current report No 26/2018).

The Parent Company, as a result of tests for impairment of investments in the subsidiary, AB Kauno Tiltai, and for impairment of goodwill assigned to the cash generating unit comprising the subsidiaries of the AB Kauno Tiltai Group, recognised an impairment loss on goodwill in the amount of PLN 24,243 thousand, as disclosed in current report No 6/2019.

The Group closed 2018 with an operating loss of PLN 117,092 thousand, which means a decrease in the operating result by PLN 155,210 thousand compared to the corresponding period of the previous year, when the operating profit amounted to PLN 38,118 thousand. The operating loss results from a decrease in gross margin on sales in the period, which was caused by the aforementioned factors.

The Group's finance income for 2018 amounted to PLN 4,153 thousand, down 29% compared to 2017, when it reached PLN 5,888 thousand. Finance costs increased by 33% in the period in question to PLN 14,465 thousand. The increase in finance costs was primarily caused by increased interest expenses which amounted to PLN 10,488 thousand.

In the period from 1 January 2018 to 31 December 2018, the Group incurred a loss before tax of PLN 127 404 thousand, which represents a decrease by PLN 160 531 thousand or 485% from the profit before tax of PLN 33,127 thousand earned in the corresponding period of the previous year.

Income tax in 2018 had a positive impact on the net profit of PLN 17,232 thousand. In 2017, the income tax amounted to PLN 1,084 thousand and had a negative impact on the net profit.

In 2018, Trakcja Group reported a net loss of PLN 110,172 thousand. The Group's net profit/loss decreased by 444% year on year.

3.1.2. Consolidated balance sheet of Trakcja Group

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

CONSOLIDATED ASSETS	31.12.2018 Audited	31.12.2017 Audited	Change	Change %
Non-current assets	**720 882**	**731 454**	**(10 572)**	**-1%**
Tangible non-current assets	297 285	266 853	30 432	11%
Investment properties	20 445	20 097	348	2%
Goodwill from consolidation	308 782	327 996	(19 214)	-6%
Intangible assets	52 348	53 753	(1 405)	-3%
Investments in other units	25	858	(833)	-97%
Other financial assets	4 511	44 147	(39 636)	-90%
Deferred tax assets	28 416	9 836	18 580	189%
Prepayments	9 070	7 914	1 156	15%
Current assets	**822 054**	**710 826**	**111 228**	**16%**
Inventory	86 854	94 027	(7 173)	-8%
Trade and other receivables	328 890	324 094	4 796	1%
Income tax receivables	3 900	9 642	(5 742)	-60%
Other financial assets	13 773	14 859	(1 086)	-7%
Cash and cash equivalents	116 687	112 184	4 503	4%
Prepayments	13 313	9 233	4 080	44%
Contracts with customers assets	206 887	-	206 887	
Construction contracts and advances paid towards contracts being performed		146 787	(146 787)	
Aktywa przeznaczone do sprzedaży	51 750	-	51 750	-
TOTAL ASSETS	**1 542 936**	**1 442 280**	**100 656**	**7%**

As at 31 December 2018, total assets of Trakcja Group amounted to PLN 1,542,936 thousand and increased by PLN 100,656 thousand from the end of 2017. Non-current assets decreased by PLN 10,572 thousand year on-year to PLN 720,882 thousand as at 31 December 2018. In 2018, current assets increased by PLN 111,228 thousand to PLN 822,054 thousand.

Property, plant and equipment recorded the largest increase in non-current assets – by PLN 30,432 thousand in connection with the construction of a modern equipment depot in Bieńkowice and investments in rail and road equipment. At the same time, the goodwill from consolidation decreased by PLN 19,214 thousand, due to the impairment loss on goodwill in the amount of PLN 24,243 thousand and the recognition of exchange rate differences.

Current assets increased by 111,228 or 16% year on year. In connection with the entry into force of IFRS 15, the Group adjusted the presentation of the value of construction contracts and advance payments for the contracts in progress in correspondence with the assets from contracts with customers, as described in more detail in Note 10 to the consolidated financial statements. As at 31 December 2018, the balance of changes in these items amounted to PLN 60,100 thousand. In addition, assets held for sale increased by 51,750 thousand PLN to 51,750 thousand.

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

CONSOLIDATED EQUITY AND LIABILITIES	31.12.2018 Audited	31.12.2017 Audited	Change	Change %
Equity attributable to shareholders of parent entity	**645 539**	**756 979**	**(111 440)**	**-15%**
Share capital	41 120	41 120	-	0%
Share premium account	309 984	309 984	-	0%
Revaluation reserve	5 768	5 765	3	0%
Other capital reserves	383 833	361 588	22 245	6%
Retained earnings	(111 006)	31 429	(142 435)	-453%
Foreign exchange differences on translation of foreign operations	15 840	7 093	8 747	123%
Non-controlling interests	**8 841**	**5 055**	**3 786**	**75%**
Total equity	**654 380**	**762 034**	**(107 654)**	**-14%**
Total liabilities	**888 556**	**680 245**	**208 311**	**31%**
Long-term liabilities	**93 112**	**116 953**	**(23 841)**	**-20%**
Interest-bearing bank loans and borrowings	66 371	87 661	(21 290)	-24%
Provisions	13 004	11 917	1 087	9%
Liabilities due to employee benefits	4 810	5 127	(317)	-6%
Provision for deferred tax	8 858	7 810	1 048	13%
Derivative financial instruments	8	4 351	(4 343)	-100%
Other liabilities	61	87	(26)	-30%
Short-term liabilities	**795 444**	**563 293**	**232 151**	**41%**
Interest-bearing bank loans and borrowings	132 559	28 538	104 021	364%
Trade and other liabilities	407 341	335 049	72 292	22%
Provisions	59 101	14 179	44 922	317%
Liabilities due to employee benefits	16 572	12 762	3 810	30%
Derivative financial instruments	-	960	(960)	-100%
Accruals	711	416	295	71%
Contracts with customers liabilities	141 258	-	141 258	
Construction contracts and advances received towards contracts being performed	-	171 347	(171 347)	
Advances received towards flats	-	42	(42)	
Liabilities of group to be classified as held for sale	37 902	-	37 902	-
Total equity and liabilities	**1 542 936**	**1 442 280**	**100 656**	**7%**

As at 31 December 2018, the Group's equity decreased by PLN 107,654 thousand or 14% year on year. The decrease was primarily attributable to the net loss of PLN 110,172 thousand reported in the period under review.

As at 31 December 2018, long-term liabilities amounted to PLN 93,112 thousand and decreased as compared to the balance as at 31 December 2017 by PLN 23,841 thousand. Long-term interest-bearing loans and borrowings decreased by PLN 21,290 thousand to PLN 66,371 thousand. As at 31 December 2018, employee benefit liabilities stood at PLN 4,810 thousand and decreased by PLN 317 thousand from 31 December 2017. Long-term provisions reached PLN 13,004 thousand, which represents an increase by PLN 1,087 thousand or 9% as compared to 31 December 2017.

Short-term liabilities increased by PLN 232,151 thousand or 41% over 2017. This increase was primarily driven by an increase in interest-bearing short-term credits and loans by PLN 104,021 thousand. Trade and other liabilities amounted to PLN 407,341 thousand as at the balance sheet date and increased by 22% year on year.

In order to provide a comprehensive view of the Company's financial position, alternative performance measures (APMs) were applied. In the Company's opinion, they provide material information on the financial position, operating efficiency, profitability and cash flows of the Group. The alternative performance measures applied by the Company should only be read as an addition rather than an alternative to the financial information presented in the financial statements. They should be read in conjunction with the Company's and Group's financial statements.

The Company presents selected APMs because it believes that they are a source of additional (apart from the data presented in the financial statements), valuable information on the financial standing and operating performance, and facilitate the analysis and evaluation of the financial performance of the Group in individual reporting periods (2017 and 2018). The selection of alternative performance measures was preceded by an analysis of their usefulness in terms of providing useful information on the financial standing and cash flows. Ratios presented for the Group will include profitability and liquidity ratios, whereas for the Parent Company – profitability, liquidity and financing structure ratios.

3.1.3. Profitability ratios

In 2018, the gross margin on sales decreased by 12.2 percentage points year on year to -5.4%. Operating profit before depreciation and impairment losses on goodwill amounted to PLN -61,442 thousand and decreased by PLN 128,511 thousand over the previous year. The EBITDA margin decreased by 8.8 p.p. in 2018 to -3.9%. The operating profit margin in 2018 stood at -7.5% and decreased by 10.3 p.p. in relation to 2017. The net profit margin decreased by 9.4 p.p. to -7.1% compared to 2.3% in 2017. Return on equity (ROE) decreased by 19.9 p.p. year on year to a negative level of -15.7%, while return on assets (ROA) amounted to -7.4% and was 9.6 p.p. lower than that of the previous year.

PROFITABILITY RATIOS	31.12.2018 Audited	31.12.2017 Audited	Change
Gross sales profit margin	-5,4%	6,8%	-12,2%
EBITDA	(61 442)	67 069	(128 511)
EBITDA profit margin	-3,9%	4,9%	-8,8%
Operating profit margin	-7,5%	2,8%	-10,3%
Net profit margin	-7,1%	2,3%	-9,4%
Return on equity (ROE)	-15,7%	4,2%	-19,9%
Return on assets (ROA)	-7,4%	2,2%	-9,6%

These ratios have been calculated using the following formulae:

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

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

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

Operating profit margin = operating profit / sales revenue

Net profit margin = net profit / sales revenue

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

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

3.1.4. Consolidated statement of cash flows of Trakcja Group

The key items of the Trakcja Group's consolidated statement of cash flows for years ended 31 December 2018 and 2017 are presented in the table below.

CONSOLIDATED CASH FLOW ACCOUNT	1.01.2018 - 31.12.2018 *Audited*	1.01.2017 - 31.12.2017 *Audited*	Change	Change %
Cash at start of period	**112 172**	**146 360**	**(34 188)**	**-23%**
Net cash flows from operating activities	(34 715)	56 881	(91 596)	-161%
Net cash flows from investment activities	(31 699)	(38 395)	6 696	-17%
Net cash flows from financial activities	73 535	(52 674)	126 209	-240%
Total net cash flows	**7 121**	**(34 188)**	**41 309**	**-121%**
Assets held for sale - transfer	(2 618)	-	(2 618)	0%
Cash at end of period	**116 675**	**112 172**	**4 503**	**4%**

In 2018, net cash flows from operating activities were negative and amounted to PLN 34,715 thousand. Net cash flow from operating activities decreased by PLN 91,596 thousand as compared to 2017.

In 2018, the Group reported negative net cash flows from investing activities of PLN 31,699 thousand, whereas in 2017 the negative cash flows from investing activities amounted to PLN 38,395 thousand.

In 2018, net cash flows from financing activities were positive and amounted to PLN 73,535 thousand. In 2018, these cash flows increased by PLN 126,209 thousand year on year.

As at the beginning of 2018, the Group's cash reported in the consolidated statement of cash flows amounted to PLN 112,172 thousand and as at the end of 2018, it reached PLN 116,675 thousand. Total cash increased by PLN 4,503 thousand in 2018.

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

As at 31 December 2018, as was the case in the previous year, the share of non-current and current assets in the asset structure is similar. Goodwill from consolidation represents the largest share in the non-current assets structure – approx. 43% (31 December 2017: 45%). Trade and other receivables, and assets from contracts with customers represent the largest components of current assets – approx. 40% (31 December 2017: 46%) and 25%, respectively.

As at 31 December 2018, equity accounts for 42% of total equity and liabilities (31 December 2017: 53%), long-term liabilities – for 7% (31 December 2017: 8%), and short-term liabilities – for 51% (31 December 2017: 39%). Trade and other liabilities represent the largest component of short-term liabilities, accounting for 26% of total equity and liabilities (31 December 2017: 23%).

3.2.1. Liquidity ratios

As at the end of 2018, the Trakcja Group's working capital reached a positive balance of PLN 27,321 thousand and decreased by PLN 120,628 thousand year on year.

As at the end of 2018, the current ratio stood at 1.03, down by 0.23 year on year. The quick ratio dropped by 0.17 to 0.92. The cash ratio declined by 0.05 from the previous year to 0.15. The cash ratio indicates that the Group would be able to immediately settle 15% of its liabilities with the cash held.

LIQUIDITY RATIOS	31.12.2018 Audited	31.12.2017 Audited	Change
Working capital	27 321	147 949	(120 628)
Current ratioj	1,03	1,26	(0,23)
Quick ratio	0,92	1,09	(0,17)
Cash ratio	0,15	0,20	(0,05)

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

3.2.2. Financing structure ratios

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

The financing structure ratios changed slightly due to the factors described above.

In 2018, the equity to assets ratio decreased year on year to 0.42. The equity to non-current assets ratio decreased by 0.15 to 0.90. The debt ratio increased to 0.58 at the end of 2018. This means that 58% of the Group's assets are financed by external sources of financing – liabilities. As at the end of 2018, the Group's debt to equity ratio stood at 1.39 as at 31 December 2018.

FINANCING STRUCTURE RATIOS	31.12.2018 Audited	31.12.2017 Audited	Change
Equity to assets ratio	0,42	0,52	-0,11
Equity to non-current assets ratio	0,90	1,03	-0,15
Debt ratio	0,58	0,48	0,11
Debt to equity ratio	1,39	0,91	0,48

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

3.3. Financial performance of the Parent Company in 2018

3.3.1 Overview of the income statement

PROFIT AND LOSS ACCOUNT	1.01.2018 - 31.12.2018 *Audited*	1.01.2017 - 31.12.2017 *Audited*	Change	Change %
Sales revenue	1 004 295	858 281	146 014	17%
Cost of goods sold	(1 129 253)	(815 586)	(313 667)	38%
Gross profit (loss) on sales	**(124 958)**	**42 695**	**(167 653)**	**-393%**
Cost of sales, marketing and distribution	(2 778)	(2 317)	(461)	20%
General and administrative costs	(28 024)	(22 382)	(5 642)	25%
Other operating revenues	55 849	3 220	52 629	1634%
Other operating costs	(1 655)	(2 244)	589	-26%
Operating profit (loss)	**(101 566)**	**18 972**	**(120 538)**	**-635%**
Financial revenues	13 479	23 747	(10 268)	-43%
Financial costs	(19 886)	(6 978)	(12 908)	185%
Gross profit (loss)	**(107 973)**	**35 741**	**(143 714)**	**-402%**
Income tax	21 286	(3 701)	24 987	-675%
Net profit for the period	**(86 687)**	**32 040**	**(118 727)**	**-371%**

In 2018, Trakcja PRKiI S.A.'s revenue amounted to PLN 1,004,295 thousand, up 17% year on year. In the period under review, the cost of sales increased by 38% to PLN 1,129,253 thousand. The gross margin on sales in the period under review stood at -12.4%, whereas in the corresponding period of 2017 it reached 5.0%. The gross loss on sales in 2018 amounted to PLN 124,958 thousand. The Company updated its contract budgets (in accordance with CR 3/2019). The effects of the remeasurement were recognised in the financial statements for 2018. Contracts for which margins were reduced were almost entirely acquired in the period until mid-2017, characterised by high pressure on the value of bids as a result of a prolonged investment gap. A significant part of expenses related to above mentioned contracts on which the margins were updated was incurred until 31 December 2018, in line with the progress of completion of the works. The impact on the level of the presented results of the Company was caused by the increased level of cost, which was impossible to predict on the date of signing contracts and the extension of duration of works. The performance in 2018 presented above was also affected by the increase in prices of infrastructural construction materials, subcontracting services and payroll costs. Furthermore, the Parent Company incurs costs related to the diversification of activities in the commercial power industry market and re-entry into the tram segment (urban market). Moreover, the Company continues to prepare its operations on foreign markets, where selected investment programmes extend to 2030.

General and administrative expenses increased in 2018 by PLN 5,642 thousand, which represents an increase by 25% as compared to the previous year. The increase in general and administrative expenses was driven mainly by a rise in actuarial provisions for employee benefits by PLN 1,806 thousand. Another reason for the increase in general and administrative expenses in the reported period were one-off compensation payments to the former President of the Management Board in the amount of PLN 1,173 thousand. In the period under consideration, selling, marketing and distribution expenses increased by PLN 461 thousand to PLN 2,778 thousand.

Net other operating revenue/expenses increased by PLN 53,218 thousand year on year. In 2018, the Company recognised income from the sale of perpetual usufruct right to real estate and ownership right to buildings and equipment located on the real estate at ul. Lotnicza 100 in Wrocław for the gross price of PLN 53,000 thousand (see current report No 26/2018).

The operating loss in 2018 amounted to PLN 101,566 thousand, whereas in the previous year the operating profit amounted to PLN 18,972 thousand.

In the period of 12 months of 2018, the Company earned finance income of PLN 13,479 thousand, which was 43% lower than in the corresponding period of the previous year, mainly due to the decrease in dividend income by PLN 8,773 thousand as compared to 2017. In the period in question, finance costs increased by 185%, i.e. by PLN 12,908 thousand year on year, due to the recognition, as a result of impairment tests of the investment in the subsidiary AB Kauno Tiltai, by the company of an impairment loss of PLN 10,746 thousand on the investment in that subsidiary, as disclosed by the company in current report No 6/2019.

In the period in question, the Company recorded a pre-tax loss of PLN 107,973 thousand, whereas in the previous year, the Company made a profit of PLN 35,741 thousand.

The Company closed 2018 with a net loss of PLN 86,687 thousand and a net profit margin of -8.6% (in 2017, the net profit margin was 3.7%).

3.3.2 Overview of the balance sheet

The table below presents the key items of the Trakcja PRKiI's balance sheet as at 31 December 2018 in comparison with their balances as at 31 December 2017:

ASSETS	31.12.2018 *Audited*	31.12.2017 *Audited*	Change	Change %
Non-current assets	**703 516**	**664 541**	**38 975**	**6%**
Tangible non-current assets	170 144	141 389	28 755	20%
Intangible assets	51 608	52 961	(1 353)	-3%
Investment properties	17 613	17 174	439	3%
Investments in subsidiaries	425 495	436 241	(10 746)	-2%
Other financial assets	4 511	5 507	(996)	-18%
Deferred tax assets	25 562	3 811	21 751	571%
Accruals	8 583	7 458	1 125	15%
Current assets	**553 301**	**444 634**	**108 667**	**24%**
Inventory	50 361	53 105	(2 744)	-5%
Trade and other receivables	253 130	230 975	22 155	10%
Income tax receivables	-	134	(134)	-100%
Other financial assets	14 596	10 318	4 278	41%
Cash and cash equivalents	61 451	20 618	40 833	198%
Accruals	9 910	7 749	2 161	28%
Contracts with customers assets	160 028	-	160 028	-
Construction contracts and advances paid towards contracts being performed	-	118 673	(118 673)	-100%
Assets held for sale	3 825	3 062	763	25%
TOTAL ASSETS	**1 256 817**	**1 109 175**	**147 642**	**13%**

As at 31 December 2018, total assets of Trakcja PRKiI amounted to PLN 1,256,817 thousand and increased by PLN 147,642 thousand or 13% year on year.

Non-current assets amounted to PLN 703,516 thousand and increased by PLN 38,975 thousand over the previous year. Property, plant and equipment recorded the largest increase in non-current assets in connection with the construction of a modern equipment depot in Bieńkowice and investments in rail and road equipment. At the same time, investments in subsidiaries decreased by PLN 10,746 thousand, due to the impairment loss on the investment in AB Kauno Tiltai.

As at 31 December 2018, current assets totalled PLN 553,301 thousand and increased by PLN 108,667 thousand or 24% as compared to 31 December 2017. Cash and cash equivalents increased by PLN 40,833 thousand to PLN 61,451 thousand in the period under review. In connection with the entry into force of IFRS 15, the Group adjusted the presentation of the value of construction contracts and advance payments for the contracts in progress in correspondence with the assets from contracts with customers, as described in more detail in Note 9 to the separate financial statements. As at 31 December 2018, the balance of changes in these items amounted to PLN 41,355 thousand.

Equity and liabilities	31.12.2018 Audited	31.12.2017 Audited	Change	Change %
Equity	**539 705**	**631 598**	**(91 893)**	**-15%**
Share capital	41 120	41 120	-	0%
Share premium account	309 984	309 984	-	0%
Revaluation reserve	5 808	5 804	4	0%
Other capital reserves	269 842	242 643	27 199	11%
Retained earnings	(86 687)	32 040	(118 727)	-371%
Foreign exchange differences on translation of foreign operations	(362)	7	(369)	-5271%
Equity total	539 705	631 598	(91 893)	-15%
Total liabilities	**717 112**	**477 577**	**239 535**	**50%**
Long-term liabilities	**67 079**	**51 178**	**15 901**	**31%**
Interest-bearing loans and borrowings	60 989	44 508	16 481	37%
Provisions	3 955	4 035	(80)	-2%
Liabilities due to employee benefits	2 135	2 635	(500)	-19%
Short-term liabilities	**650 033**	**426 399**	**223 634**	**52%**
Interest-bearing loans and borrowings	144 823	19 737	125 086	634%
Trade and other liabilities	313 292	252 084	61 208	24%
Provisions	52 575	7 316	45 259	619%
Liabilities due to employee benefits	9 540	8 099	1 441	18%
Accruals	574	366	208	57%
Contracts with customers liabilities	129 229	-	129 229	-
Construction contracts and advances received towards contracts being performed	-	138 797	(138 797)	-100%
TOTAL EQUITY AND LIABILITIES	**1 256 817**	**1 109 175**	**147 642**	**13%**

As at 31 December 2018, the Company's equity amounted to PLN 539,705 thousand. and decreased by PLN 91,893 thousand, i.e. by 15% as compared to the balance as at 31 December 2017. This decrease was caused by the net loss of PLN 86,687 thousand. and the distribution of dividend in the amount of PLN 5,140 thousand.

Long-term liabilities amounted to PLN 67,079 thousand as at 31 December 2018 and increased by 31% as compared to the balance as at the end of 2017. The increase was driven by an increase in credits and loans by PLN 16,481 thousand.

Short-term liabilities amounted to PLN 650,033 thousand as at 31 December 2018 and increased by PLN 223,634 thousand or 52% year on year. The increase in short-term liabilities is mainly attributable to an increase in interest-bearing credits and loans – by PLN 125,086 thousand. The Company signed new annexes to a working capital facility and overdraft facility. Total debt on account of these facilities amounted to PLN 92,774 thousand as at 31 December 2018. The above increase, both in terms of long-term and short-term liabilities, was driven primarily by the increased demand for working capital caused by a high intensification of work in the spring and summer season, as well as the pressure of subcontractors on quicker payment of liabilities due to liquidity problems in the construction industry. Moreover, trade and other liabilities increased in the period under review by PLN 61,208 thousand, i.e. by 24% as compared to the balance as at 31 December 2017.

3.3.3 Overview of the statement of cash flows

The key items of Trakcja PRKiI's statement of cash flows for years ended 31 December 2018 and 2017 are presented in the table below.

CASH FLOW STATEMENT	1.01.2018 - 31.12.2018 *Audited*	1.01.2017 - 31.12.2017 *Audited*	Zmiana	Zmiana %
Cash at start of period	**20 618**	**18 820**	**1 798**	**10%**
Net cash flows from operating activities	(53 020)	41 570	(94 590)	-228%
Net cash flows from investment activities	(8 734)	5 400	(14 134)	-262%
Net cash flows from financial activities	102 587	(45 172)	147 759	-327%
Total net cash flows	**40 833**	**1 798**	**39 035**	**2171%**
Cash at end of period	**61 451**	**20 618**	**40 833**	**198%**

As at the beginning of 2018, the Company's cash amounted to PLN 20,618 thousand and as at the end of 2018, it reached PLN 61,451 thousand.

The net cash flows in the period in question were positive and amounted to PLN 40,833 thousand.

In 2018, net cash flows from operating activities were negative and amounted to PLN 53,020 thousand. It decreased by PLN 94,590 thousand as compared to the corresponding period of the previous year.

In 2018, the Company reported negative net cash flows from investing activities of PLN 8,734 thousand, whereas in the corresponding period of 2017 cash flows from investing activities amounted to PLN 5,400 thousand.

In 2018, net cash flows from financing activities reached a positive balance of PLN 102,587 thousand. The above amount resulted primarily from proceeds from credits and loans in the amount of PLN 131,401 thousand.

3.4. Financial ratios of Trakcja PRKiI

3.4.1 Profitability ratios

The gross margin on sales dropped to -12.44% in 2018 compared to 4.97% in the corresponding period of the previous year. The operating profit before depreciation and amortisation decreased by PLN 119,766 thousand to PLN -86,986 thousand, while the EBITDA margin decreased by 12.48 p.p. to -8.66%. The operating profit margin decreased by 12.32 p.p. to -10.11%. The net profit margin in the period under review stood at -8.63%.

The return on equity (ROE) amounted to -14.80%. Return on assets (ROA) stood at -7.33% and decreased by 10.22 p.p. when compared to the corresponding period.

PROFITABILITY RATIOS	31.12.2018 *Audited*	31.12.2017 *Audited*	Change
Gross sales profit margin	-12,44%	4,97%	-17,41%
EBITDA	(86 986)	32 780	(119 766)
EBITDA profit margin	-8,66%	3,82%	-12,48%
Operating profit margin	-10,11%	2,21%	-12,32%
Net profit margin	-8,63%	3,73%	-12,36%
Retyrn in equity (ROE)	-14,80%	5,07%	-19,87%
Return on assets (ROA)	-7,33%	2,89%	-10,22%

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

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

3.4.2 Liquidity ratios

As at 31 December 2018, the working capital of Trakcja PRKiI S.A. was negative and amounted to PLN -96,158 thousand, whereas as at the end of 2017 it amounted to PLN 18,601 thousand.

At the end of 2018, the current ratio was 0.85. The quick ratio stood at 0.77. The cash ratio reached 0.09. The Company's liquidity situation is described in Note 10 to the Separate financial statements.

LIQUIDITY RATIOS	31.12.2018 *Audited*	31.12.2017 *Audited*	Change
Working capital	(96 158)	18 601	(114 759)
Current ratio	0,85	1,04	(0,19)
Quick ratio	0,77	0,92	(0,15)
Cash ratio	0,09	0,05	0,04

3.4.3 Financing structure ratios

The Company monitors its capital structure using the financing structure ratios. The financing structure ratios changed due to the factors described above.

As at 31 December 2018, the equity to assets ratio amounted to 0.43 and decreased by 0.14 when compared to the end of the corresponding year. The equity to non-current assets ratio decreased by 0.18 as compared to 31 December 2017. As at the end of 2018, the debt ratio amounted to 0.57. The debt to equity ratio increased from 0.76 as at the end of 2017 to 1.33 as at the end of 2018.

FINANCING STRUCTURE RATIOS	31.12.2018 *Audited*	31.12.2017 *Audited*	Change
Equity to assets ratio	0,43	0,57	-0,14
Equity to non-current assets ratios	0,77	0,95	-0,18
Debt ratio	0,57	0,43	0,14
Debt to equity ratio	1,33	0,76	0,57

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

3.5. Assessment of financial resources management

At the end of 2018, Trakcja Group held cash of PLN 116,687 thousand and, at the same time, total debt on account of credits, loans and finance leases amounted to PLN 198,930 thousand. The Group maintains the level of external financing as well as financial liquidity that allow it to execute its current contract portfolio. Any temporary cash surpluses are invested in short-term bank deposits.

The Group has at its disposal undrawn credit lines (overdrafts and working capital facilities) in the amount of PLN 148 million and PLN 20 million of contract financing, which ensures continuity of financing of current contractual activities for the Trakcja Group companies.

The Parent Company has taken steps to refinance its existing bank debt and to increase the Company's equity through the issue of new shares, as announced in CR 4/2019.

The Parent Company estimates the demand for additional financing at PLN 150-170 million, and plans to raise it through increased debt financing and capital increase.

Note 10 to the separate financial statements for 2018 presents details of the process of aimed at obtaining bridge financing (signing the term sheet) and refinancing of operations. Information indicating the risk to the going concern status was presented in the same note to the separate financial statements for 2018.

Trakcja Group conducts extensive cooperation with banks and insurance institutions in order to ensure the relevant level of financing and the bank and insurance guarantees that enable it to perform the expected construction contracts.

Through the renegotiation of the existing loan agreements and the establishment of business relationships with new banks and insurance companies, Trakcja Group manages its liquidity position and expands its external funding resources.

The Group uses various bank products and funding sources (overdrafts, investment loans, factoring, finance leases, contract financing) in order to minimise its financial costs and optimise its financial liquidity management.

3.6. Assessment of factors and non-recurring events having an impact on the Trakcja Group's performance in 2018

The key factors and non-recurring events affecting the Trakcja Group's performance in 2018 are as follows:

Sale of real property at ul. Lotnicza in Wrocław

On 27 December 2018, the Parent Company signed a sales agreement under which Trakcja PRKiI sold the property to Lotnicza 100 Spółka z ograniczoną odpowiedzialnością with its registered office in Wrocław for the gross price of PLN 53,000 thousand.

Update of contract budgets in the fourth quarter of 2018

The update of contract budgets in the fourth quarter of 2018 in the amount of PLN 138,943 thousand affected the gross margin on sales of the Parent Company. Contracts for which margins were reduced were almost entirely acquired in the period until mid-2017, characterised by high pressure on the value of bids as a result of a prolonged investment gap.

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

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

3.8. Hedging transactions

Polish companies of Trakcja Group do not apply hedge accounting, but the Lithuanian part of Trakcja Group, namely AB Kauno Tiltai - AB Kauno Tiltai and UAB Palangos aplinkkelis follow the principles thereof.

On 5 June 2013, one of the Issuer's subsidiaries, i.e. UAB Palangos aplinkkelis made an interest rate swap (IRS) transaction in order to hedge future cash flows expected to arise from interest to be paid on the term loan. Pursuant to the agreement, the company is a payee of amounts at a fixed rate, whereas the bank is a payee of amounts at a variable rate. The hedging relationship is set to expire on May 31, 2028.

On 4 and 14 October 2015, one of the Issuer's subsidiaries, i.e. AB Kauno Tiltai made two interest rate swap (IRS) transactions in order to hedge future cash flows expected to arise from interest to be paid on the term loan. Pursuant to the agreement, the company is a payee of amounts at a fixed rate, whereas the bank is a payee of amounts at a variable rate. The hedging relationships are set to expire on 14 January 2020.

As at 31 December 2018, the effect of valuation of the above hedging instruments on liabilities amounted to PLN 115 thousand and the effect on other comprehensive income was negative and amounted to PLN 221 thousand. For details on the classification by levels, see Note 41 to the consolidated financial statements for 2018.

3.9. Explanation of differences between the actual and forecast financial performance of Trakcja Group

Trakcja Group did not publish any financial forecast in 2018.

4. SHARES AND SHAREHOLDING STRUCTURE OF TRAKCJA PRKiI

4.1. Shareholding structure

According to the entry in the National Court Register, as at 31 December 2018 and as at the date of this report, the Parent Company's share capital was PLN 41,119,638.40, and was divided into 51,399,548 ordinary series A bearer shares with a par value of PLN 0.80 per share. Each share carries one vote at the Issuer's General Meeting. All the shares are fully paid.

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

Shareholders	Number of shares	% in share capital	Number of votes	% in votes at GSM
COMSA S.A.	16 156 193	31,43%	16 156 193	31,43%
OFE PZU "Złota Jesień"*	5 732 694	11,15%	5 732 694	11,15%
Other	29 510 661	57,41%	29 510 661	57,41%
Total	**51 399 548**	**100,00%**	**51 399 548**	**100,00%**

represented by the Powszechne Towarzystwo Emerytalne PZU S.A.

Since the date of submission of the last interim report, i.e. 15 November 2018, the Parent Company has not received any notification from shareholders informing about a change in the total number of votes held in the Parent Company.

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

Since the date of submission of the last interim report, i.e. 15 November 2018, there have been no changes in the holding of the Parent Company's shares by members of the management and supervisory bodies.

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

4.3. Agreements regarding potential changes in the shareholding structure

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

4.4. Employee share schemes

In 2018, Trakcja Group did not operate an employee share scheme.

4.5. Acquisition of treasury shares

In 2018, Trakcja PRKiI did not acquire treasury shares.

5. OTHER INFORMATION

5.1. Loans and borrowings contracted and terminated

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

Name of company	Lender Borrower	Type of loan/credit	Amount in agreement currency	Currency	Maturity date	Interests	Outstanding amount (in ths. PLN)
Trakcja PRKiI S.A.	mBank S.A.	overdraft facility	20 000	PLN	25.04.2019	WIBOR O/N + margin	-
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	50 000	PLN	27.09.2019	WIBOR 1M + margin	46 000
Trakcja PRKiI S.A.	mBank S.A.	investment credit	21 500	PLN	30.09.2021	WIBOR 1M + margin	13 912
Trakcja PRKiI S.A.	Pekao S.A.	overdraft facility	20 000	PLN	31.05.2019	WIBOR 1M + margin	16 781
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	15 000	PLN	12.02.2019	WIBOR 1M + margin	14 993
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	15 000	PLN	12.02.2019	WIBOR 1M + margin	15 000
Trakcja PRKiI S.A.	ING Bank Śląski S.A.	overdraft facility	20 000	PLN	28.02.2019	WIBOR 1M + margin	-
Trakcja PRKiI S.A.	Credit Agricole Bank Polska S.A.	working capital credit	-	PLN	-	0	4
Trakcja PRKiI S.A.	mLeasing Sp. Z o.o.	investment loan	29 862	PLN	15.06.2028	WIBOR 1M + margin	22 727
Torprojekt Sp. z o.o.	ING Bank Śląski S.A.	working capital credit	2 000	PLN	28.02.2019	WIBOR 1R + margin	1 734
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	overdraft facility	2 500	PLN	30.04.2019	WIBOR 6M + margin	-
Bahn Technik Wrocław Sp. z o.o.	mBank S.A.	overdraft facility	1 000	PLN	16.04.2019	WIBOR ON + margin	330
Bahn Technik Wrocław Sp. z o.o.	mBank S.A.	working capital credit	1 500	PLN	16.04.2019	WIBOR 1M + margin	-
Bahn Technik Wrocław Sp. z o.o.	Plasser & Theurer, Export von Bahnbaumaschinen, Gessellschaft m.b.H.	investment loan	1 800	EUR	24.03.2020	fixed rate	3 223
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	investment credit	2 500	PLN	30.12.2020	WIBOR 1M + margin	1 396
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	overdraft facility	3 000	PLN	odnawialny	WIBOR 1M + margin	-
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	ING Bank Śląski S.A.	overdraft facility	3 000	PLN	01.08.2019	WIBOR 1M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital credit	1 400	EUR	14.01.2020	EURIBOR 3M + margin	2 145
AB Kauno Tiltai	Nordea Dnb	working capital credit	14 000	EUR	31.08.2019	EURIBOR 3M + margin	-
AB Kauno Tiltai	Nordea	working capital credit	3 000	EUR	31.08.2019	EURIBOR 1M + margin	-
AB Kauno Tiltai	Dnb	working capital credit	3 000	EUR	31.08.2019	EURIBOR 3M + margin	-
						Total	**138 245**

Total liabilities of the Group on account of loans and borrowings as at 31 December 2018 amounted to PLN 138,245 thousand.

In addition, pursuant to the agreements signed, as at 31 December 2018 the Group has at its disposal undrawn credit lines (overdrafts and working capital facilities) in the amount of PLN 148 million and PLN 20 million of contract financing (as at 31 December 2017: PLN 183 million).

Loans and borrowings contracted in 2018

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

The Parent Company signed the following agreements:

- two agreements for electronic payment of liabilities each in the amount of PLN 15,000 thousand concluded between the Company and mBank S.A. - the financing period of both agreements until 30 May 2019

In 2018, the Company signed annexes to the following loan agreements:

- Annex No 32 of 20 April 2018 to the revolving overdraft facility agreement up to PLN 20,000 thousand concluded between the Company and mBank S.A. – extension of the facility term until 25 April 2019;
- Annex No 33 of 19 December 2018 to the revolving overdraft facility agreement up to PLN 20,000 thousand concluded between the Company and mBank S.A. – modification of financial covenants;
- Annex No 3 of 23 July 2018 to the revolving facility agreement up to PLN 50,000 thousand concluded between the Company and mBank S.A. – extension of the facility term until 30 April 2019;
- Annex No 3 of 23 June 2018 to the revolving facility agreement up to PLN 20,000 thousand concluded between the Company and mBank S.A. – extension of the facility term until 31 May 2019.
- Annex No 3 of 2 September 2018 to the master agreement between the Company and ING Bank Śląski – addition of the representation on submission to enforcement under Art. 777 of Code of Civil Procedure as an additional security
- Annex No 3 of 27 September 2018 to the master agreement between the Company and ING Bank Śląski – extension of the guarantee limit of PLN 40,000 thousand with the option of issuing payment guarantees.

In addition, in 2019 the Parent Company signed the following agreements:

- between the Company and ING Bank Śląski S.A.
  - Annex No 4 of 22 January 2019 to the master agreement of 4 February 2016 - extension of the facility term until 29 March 2019
  - Annex No 5 of 22 February 2019 to the master agreement of 4 February 2016 - extension of the facility term until 30 April 2019
  - Annex No 6 of 22 April 2019 to the master agreement of 4 February 2016 - extension of the facility term until 1 May 2019
- between the Company and mBank S.A.
  - Annex No 34 of 25 April 2019 to the overdraft facility agreement – extension of the facility term until 29 May 2019
  - two agreements for electronic payment of liabilities each in the amount of PLN 15,000 thousand

  Annex No 3 of 11 February 2019 - extension of the repayment term until 15 April 2019

  Annex No 4 of 11 April 2019 - extension of the repayment term until 30 May 2019

The Issuer's subsidiaries signed the following agreements:

In the reporting period, the Issuer's subsidiary, PEUiM Sp. z o.o., signed the following agreements

- with ING Bank Slaski S.A.: a revolving overdraft facility agreement of up to PLN 3,000 thousand (available until 1 August 2019);

- with mBank S.A.: an annex to a revolving overdraft facility agreement increasing the facility limit from PLN 2,000 thousand to PLN 3,000 thousand

In the reporting period, the Issuer's subsidiary, Torprojekt Sp. z o.o., signed a working capital facility agreement with ING Bank Śląski S.A. for up to PLN 2,000 thousand (available until 28 February 2019);

During 2018, the Issuer's subsidiary, Bahn Technik Wrocław Sp. z o.o., signed the following loan agreements with mBank S.A:

- an overdraft facility agreement of PLN 1,500 thousand (available until 16 April 2019);
- a revolving overdraft facility agreement of up to PLN 1,000 thousand (available until 16 April 2019);

Loan and borrowing agreements terminated or expired in 2018

No loan or borrowing agreements expired or were terminated in 2018.

The Parent Company is required to comply with financial covenants related to its current financial standing and set forth in loan agreements concluded with the following banks:

- Bank Polska Kasa Opieki S.A.

- ING Bank Śląski S.A.

- mBank S.A.

- Credit Agricole Bank Polska S.A.

- Haitong Bank S.A. Spółka Akcyjna, Branch in Poland (no debt outstanding as at the date of the financial statements)

The figures presented in the financial statements indicate that the Parent Company has failed to comply with the covenants contained in agreements with the aforementioned banks. Due to this non-compliance, the Parent Company's bank loans were presented in the financial statements as short-term loans. On 9 April 2019, the banks made an oral declaration to refrain from any actions related to the exercise of their rights under the loan agreements and expressed their readiness to enter into negotiations on debt refinancing and long-term financing.

5.2. Borrowings extended in the financial year

A list of borrowings extended during 2018 by the Group companies, including to related parties, is presented in the following table.

Lender	Borrower	Amount of loan (ths. PLN)	Currency	Maturity date	Interests	Amount left to be paid	Capital relationship
PRK 7 Nieruchomości Sp. z o.o.	Trakcja PRKiI S.A.	3 000	PLN	31.07.2019	WIBOR 1M + margin	3 060	subsidiary
PRK 7 Nieruchomości Sp. z o.o.	Trakcja PRKiI S.A.	3 500	PLN	24.09.2019	WIBOR 1M + margin	3 534	subsidiary
AB Kauno Tiltai	Trakcja PRKiI S.A.	3 500	EUR	31.10.2018	fixed rate	15 166	subsidiary
PEUiM Sp. z o.o.	Dalba Sp. z o.o.	500	PLN	31.12.2018	WIBOR 1 M + margin	-	subsidiary
Trakcja PRKiI S.A.	PDM Białystok S.A.	2 000	PLN	31.12.2018	WIBOR 1 M + margin	2 065	subsidiary
AB Kauno Tiltai	UAB Pletros investicijos	1 500	EUR	31.12.2028	fixed rate	4 979	subsidiary
Kelda UAB	AB Kauno Tiltai	450	EUR	31.12.2019	fixed rate	1 967	subsidiary
Trakcja Ukraina Sp. z o.o.	Trakcja Asfalt Sp. z o.o.	10 000	UAH	30.06.2019	fixed rate	562	subsidiary
Trakcja Ukraina Sp. z o.o.	Trakcja Infra Sp. z o.o.	10 000	UAH	30.06.2019	fixed rate	509	subsidiary

5.3. Sureties and guarantees issued and received

The table below summarises guarantees issued by the Parent Company:

Beneficiary	Guarantee value
PKP PLK S.A.	199 081
Generalna Dyrekcja Dróg Krajowych i Autostrad	45 400
Wielkopolski Zarząd Dróg Wojewódzkich	9 985
Województwo Pomorskie	8 427
Miasto Gorzów Wielkopolski	5 115
Other	13 671
Total	**281 679**

The table below summarises guarantees received by the Parent Company:

Subcontractor	Guarantee value
Krakowskie Zakłady Automatyki S.A.	14 800
THALES Polska Sp. z o.o.	5 387
Menard Polska Sp. z o.o.	4 695
Kolejowe Zakłady Automatyki S.A.	3 677
Przedsiębiorstwo Wyrobów Stalowych Sp. z o.o.	2 619
Other	18 057
Total	**49 235**

The table below summarises sureties issued by the Parent Company:

	Surety value (thou. PLN)
Torprojekt Sp. z o.o.	2 400
Bahn Technik Wrocław Sp. z o.o.	2 500
Total	**4900**

5.4. Proceeds from issues of securities

In the reporting period, Trakcja PRKiI did not issue any securities, and thus did not receive any proceeds from the issue of securities.

5.5. Material off-balance sheet items

	31.12.2018 Audited	31.12.2017 Audited
Contingent receivables		
From related entities due to:	**89 206**	**79 285**
Received guarantees and sureties	88 366	76 107
Bills of exchange received as collateral	840	3 178
Total contingent receivables	**89 206**	**79 285**
From related entities due to:		
From other entities due to:	**2 513 844**	**2 645 100**
Provided guarantees and sureties	897 239	796 255
Promissory notes	449 589	485 219
Mortgages	181 979	149 039
Assignment of receivables	887 692	1 071 118
Assignment of rights under insurance policy	40 483	54 301
Security deposits	24 612	22 174
Other liabilities	32 250	66 994
Total contingent liabilities	**2 513 844**	**2 645 100**

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

Contingent liabilities arising from guarantees and sureties comprise mainly guarantees issued by banks to counterparties of the Group companies to secure their claims against the Group companies that may arise on the grounds of executed construction contracts. The banks have the right to recourse against the Group companies on that account. Promissory notes are a different form of collateral for the aforementioned bank guarantees.

In the period between the balance sheet date and the publication hereof, the Parent Company concluded new agreements for tender bonds, performance bonds and advance payment guarantees in the total amount of PLN 28,347 thousand.

5.6. Significant court cases and disputes

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

In its profit or loss for 2018, the Parent Company does not take into account the value of lawsuits filed by the Company against contracting authorities, for which the total gross amount of the claims is approximately PLN

109,255 thousand. Other contractual claims in the net amount of PLN 152,400 thousand, pursued out of court, are also not included in profit or loss.

Proceedings concerning the Parent Company:

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

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

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

Case against Leonhard Weiss International GmbH

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

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

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

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

Proceedings against PKP PLK S.A.

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

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

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

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

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

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

PLN 6,283.547.59 and capitalized interest on the principal for the period from 6 October 2017 to 27 August 2018.The case is at the early stage of proceedings and its resolution date is difficult to predict.

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

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

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

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

a) reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0090/15/Z/I for Construction of civil engineering structures on km 160,857; km 155.170 and km 145.650 of railway line No 271 Wrocław – Poznań, as part of the POIiŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section" – as regards the Partial Contract A – railway viaduct on km 145.650 in Mosina, due to circumstances within the scope of responsibility of PKP PLK S.A.,
b) reimbursement for the costs of additional works performed by the Company, not provided for in the Contractor's Bid for the contract in question.

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

On 2 April 2019, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 489,147.29 PLN (in words: four hundred eighty-nine thousand one hundred forty-seven zloty and twenty-nine grosz) along with statutory interest for delay, as a reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0092/15/Z/I for Construction of civil engineering structures on km 160,857; km 155.170 and km 145.650 of railway line No 271 Wrocław – Poznań, as part of the POIiŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section" – as regards the Partial Contract C – railway viaduct on km 160.857 in Mosina, due to circumstances within the scope of responsibility of PKP PLK S.A., The case is at the early stage of proceedings and its resolution date is difficult to predict.

Proceedings concerning subsidiaries:

AB Kauno Tiltai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, of which a subsidiary, AB Kauno Tiltai, is a member, for a total amount of PLN 63,353,359.83 (EUR 14,989,556.33). The share of Trakcja Group in liabilities (if any) that may arise from these proceedings is 65%. The Group refrained from making any other disclosures related to this court case by invoking clause 92 of IAS 37. According to the Management Board of The Parent Entity those disclosures may reveal information to parties of court proceedings, which can be used in the ongoing proceedings against the interests of the subsidiary AB Kauno tiltai.

5.7. Material events subsequent to the balance sheet date

Significant construction contracts	CR
07.02.2019 The Management Board of Trakcja PRKiI S.A. ("Company", "Issuer") informs that the Company, acting as the Leader of the Consortium with COMSA S.A.U. - as the Consortium Partner - has signed a contract with Municipality of Krakow, which covers conduction of construction works: 'The renovation of tramway track on Krakowska Street at the section Rollego Street – Dietla Street along with renovation of current road system, sidewalks, paths, technical infrastructure, turnout node on Krakowska-Dietla-Stradomska as well as renovation of Dietla Street at the section Bożego Ciała Street – Augustiańska Street and renovation of existing Piłsudski Bridge across the Vistula River'. The net value of the contact is PLN 76,592,220.49. The works are to be finished within 10 months after the date of handing over the construction site, as well as the possibility of using tramway tracks for tram traffic within 8 months after the date of handing over the construction site.	2/2019

Other	CR
18.01.2019 The Management Board of Trakcja PRKiI S.A. (the Company) hereby makes public the dates of publication of periodic reports in 2019.	1/2019
18.02.2019 The Management Board of Trakcja PRKiI S.A. (the Company) publishes the financial results for the period of 12 months ended on 31 December 2018.	3/2019
18.02.2019 The Management Board of Trakcja PRKil S.A. (the Company) adopted a resolution on the commencement of actions aimed at refinancing the Company's existing banking financing and recapitalizing the Company by way of issue of new shares.	4/2019
29.03.2019 The Management Board of Trakcja PRKiI S.A. (the Company) changed terms of periodic reports publication.	5/2019
23.04.2019 29.03.2019 The Management Board of Trakcja PRKil S.A. (the Company) has decided to recognize write-off of the value of investments in subsidiaries in Trakcja PRKiI's balance sheet in the amount of PLN 10.746 thousand and the value of goodwill in Trakcja Group's consolidated balance sheet in the amount of PLN 24.243 thousand.	6/2019

5.8. Related-party transactions

All related-party transactions of the Parent Company and its subsidiaries in 2018 were executed on an arm's length.

For detailed information on related-party transactions, see Note 58 to the Consolidated financial statements of Trakcja Group for 2018.

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

Total amount of the remuneration and other benefits paid to members of the Parent Company's Management Board in 2018 is presented in the table below:

Management Board of the Parent Company		Parent Company				Subsidiaries			
		Remunaration	Awards	Other benefits	Total	Remunaration	Awards	Other benefits	Total
Marcin Lewandowski	President of Management Board from 1.09.2018	440	-	-	**440**	-	-	-	**-**
Jarosław Tomaszewski	President of Management Board from 27.04.2018	490	339	774	**1 603**	250	-	-	**250**
Paweł Nogalski	Vice-President of the Management Board	600	175	43	**818**	250	-	-	**250**
Marek Kacprzak	Vice-President of the Management Board	600	295	44	**939**	-	-	-	**-**
Sobczyk Maciej	Vice-President of the Management Board	600	151	36	**787**	-	-	-	**-**
Rusevicius Aldas	Vice-President of the Management Board	120	12	-	**132**	357	-	-	**357**
Total		**2 850**	**972**	**897**	**4 719**	**857**	**-**	**-**	**857**

The amount of PLN 4,719 thousand was recognised as costs of the Parent Company, while the remaining amount of remuneration, i.e. PLN 857 thousand, was recognised as costs of subsidiaries.

Remuneration and other benefits paid to members of the Parent Company's Supervisory Board in 2018 is presented in the table below:

Supervisory Board of the Parent Company	Parent Company				Subsidiaries			
	Wynagrodzenie	Nagrody	Pozostałe korzyści	Razem	Wynagrodzenie	Nagrody	Pozostałe korzyści	Razem
Dominik Radziwiłł	240	-	-	**240**	229	-	-	229
Michał Hulbój	132	-	-	**132**	-	-	-	**-**
Wojciech Napiórkowski	132	-	-	**132**	-	-	-	**-**
Łukasz Rozdeiczer-Kryszkowski	132	-	-	**132**	-	-	-	**-**
Miquel Llevat Vallespinosa	132	-	-	**132**	250	-	-	**250**
Jorge Miarnau Monserrat	96	-	-	**96**	-	-	-	**-**
Fernando Perea Samarra	132	-	-	**132**	-	-	-	**-**
Total	**996**	**-**	**-**	**996**	**479**	**-**	**-**	**479**

5.10. Agreements concluded between the Parent Company and managers

The Parent Company and the Management Board members concluded employment contracts which provide for:

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

or

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

or

- compensation equal to 6 times a monthly gross basic salary in the Company received by the employee for the last month preceding the termination of the employment relationship, payable in three equal instalments;

or

- compensation equal to 9 times a monthly salary.

Trakcja PRKiI and the Management Board members concluded non-competition agreements which during one year following the termination of the employment relationship provide for compensation:

- equal to 12 times a 100 % of the employee's monthly basic salary to which they are entitled under an employment contract in the course of the last year of being employed at the company, payable in arrears in equal monthly instalments.

or

- equal to 12 times a 100 % of the employee's monthly average salary to which they are entitled under an employment contract in the course of the last year of being employed at the company, payable in arrears in equal monthly instalments.

As at 31 December 2018, there were no liabilities related to pension or similar benefits for former members of the management, supervisory or administrative bodies, and no liabilities were incurred in connection with such pensions.

5.11. Major R&D achievements

Despite operating on a market characterised by a small number of new solutions, the Parent Company is one of the leaders in terms of innovative solutions. The Parent Company has been operating on the market for energy storage facilities since 2016.

For TRAKCJA-SAT HUSAR SIP (dynamic information system for travellers and safety system for passengers) the Parent Company was awarded a prize in the category of completed line and building project implemented in Poland in the Competition for the Józef Nowkuński, Eng. prize.

5.12. Information on the statutory auditor

Pursuant to a resolution adopted by the Supervisory Board of Trakcja Group, the entity authorised to audit financial statements of the Group and the Parent Company is Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (acting under the business name of Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. K. until 18 March 2018) with its registered office in Warsaw at Al. Jana Pawła II 22.

On 31 July 2017 the Parent Company and Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (acting under the business name of Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. K. until 18 March 2018) entered into an agreement for:

- review of the semi-annual separate and consolidated financial statements prepared as at 30 June 2018 in accordance with the International Accounting Standards;
- audit of the annual separate and consolidated financial statements prepared as at 31 December 2018, in accordance with the International Accounting Standards.

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

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

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

	Year ended	
	31.12.2018 Audited	**31.12.2017 Audited**
On account of agreement for financial statement audit	239	236
On account of agreement for financial statement review	76	76
On account of other agreements	21	41
Total	**336**	**353**

In 2018, the key statutory auditor and the audit firm provided the Group companies with the following non-audit services:

- assurance services for the Company's Integrated Annual Report for 2017, which involved the assessment of the quality and completeness of the data collected and of its compliance with the International Reporting Guidelines and the Global Reporting Initiative.

- review of the Respect Index questionnaire.

6. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS

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

In 2018, Trakcja PRKiI was subject to the corporate governance rules stipulated in the "Code of Best Practice for WSE Listed Companies 2016" adopted by the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015.

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

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

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

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

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

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

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

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

The Company's commentary: The Company does not publish any financial projections. Therefore this principle is not applicable.

I.Z.1.11. information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule.

The Company's commentary: The Company does not apply the aforementioned principle, because it complies with the relevant regulations on the rotation of auditors set forth in the Act on Statutory Auditors, Audit Firms, and Public Oversight of 11 May 2017.

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

The Company's commentary: The Company informs that it did not draw up any official document that contained a description of the Company's diversity policy applicable to the Company's governing bodies and key managers, which would include such elements of the diversity policy as gender, education, age or professional experience. Despite having no official policy in that respect, Trakcja endeavours to comply with the diversity principles, which is reflected in the share of women employed as white-collar employees and the share of women employed as managers. The Company follows the diversity principles any time it has an opportunity to do so. This is reflected in the composition of the Supervisory Board. The persons appointed satisfy the requirements of versatility and diversity, in particular, as far as their education, age and professional experience are concerned. High qualifications and professional preparation to perform a given function are the key factors in determining whether a person may take up a particular position.

The Company seeks to apply the principles of diversity to the Company's governing bodies and key managers, but due to a very stable composition of the Company's Management Board they play a limited role in that area.

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

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

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

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

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

II.Z.1. The internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website.

The Company's commentary: At the moment the Company does not apply to this principle, but the division of responsibilities for individual areas of the Company's activities among the Management Board members is ready and will be made available on the Company's website after its entry into force.

II.Z.7. Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.

The Company's commentary: The Company applied to this principle; however, the committees of the Supervisory Board consist of independent members of the Supervisory Board, as provided for by the provisions of Annex I to the Commission Recommendation referred to in principle II.Z.4. The independent members form the majority in the Audit Committee, and at least one independent member of the Supervisory Board is a member of the Remunerations Committee.

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

IV.R.1. Companies should strive to hold an ordinary general meeting as soon as possible after the publication of an annual report and set the date in keeping with the applicable legislation.

The Company's commentary: In accordance with the standard practice adopted by the Company, ordinary general meetings are held usually in May or June in keeping with the deadline set out that purpose in Article 395 § 1 of the Commercial Companies Code.

IV.R.2. If justified by the shareholding structure or expectations of the shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through: 1) real-time broadcast of the general meeting, 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the venue of the general meeting; 3) exercise the right to vote during a general meeting either in person or through a proxy.

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

IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

The Company's commentary: The aforementioned recommendation does not apply to the Company, because the shares issued by the Company are only traded on the Warsaw Stock Exchange.

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

The Company's commentary: Due to its shareholding structure, the Company does not broadcast General Meetings in real time.

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

V.Z.6. In its internal regulations, the Company determines criteria and circumstances, which may lead to the conflict of interest in the Company, and the rules of conduct, if the conflict of interest occurs or is likely to occur. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

The Company's commentary: Currently the Company does not apply this principle, but it is preparing internal regulations concerning the criteria and circumstances, in which a conflict of interests may occur in the Company and also the procedure for resolving conflicts of interest when they occur or for preventing their occurrence.

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

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

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

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

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

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

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

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

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

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

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

VI.Z.4. In this directors' report, the company should report on the remuneration policy including at least the following: 1) general information about the company's remuneration system; 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group; 3) information about non-financial remuneration components due to each management board member and key manager; 4) indication of significant changes, which were introduced in the remuneration policy in the last financial year, or information about their lack, 5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

The Company's commentary: The Company does not report on the remuneration policy in its directors' report, but preparations are being made so that in the future such a report forms part of the directors' report.

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

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

1) liquidation of the Company;
2) increasing the Company's share capital, cancelation of the Company's shares and reducing the Company's share capital;
3) issuing convertible bonds or other securities conferring the right to vote;
4) granting options conferring the right to acquire shares or other securities of the Company, and their terms;
5) waiving the Shareholders' pre-emptive rights to new shares;
6) selling the business or its organised part;
7) recalling or suspending the Management Board members or the Supervisory Board members;
8) merger, demerger and transformation of the Company;
9) conversion of shares back into certificated form;
10) amending the Articles of Association

must be adopted by a 2/3 (two thirds) majority of the votes cast, when required by law. The General Meeting appoints the Company's Supervisory Board members, subject to the relevant provisions of the Company's Articles of Association. In addition to the aforementioned issues, the GM resolutions must be adopted in matters specified in the Commercial Companies Code, especially in the subject of examination and approval of the Directors' report on the activities of the Company and on the activities of the capital group and the financial statements of the Company and of the capital group for the previous financial year, discharge of members of the Company's corporate bodies on the performance of their duties, profit distribution and loss coverage, sale or lease the business or its organised part and establishment of a limited right in rem, issue of senior bonds, establishment and liquidation of reserve capital; in case of the Company's liquidation, the GM appoints liquidators and specifies the procedure. The Management Board submits drafts of the GM resolutions to the Supervisory Board for its prior opinion. Shareholders may participate in the GM and exercise voting rights in person or by proxy. The Company's Management Board members and Supervisory Board members participate in the GM. If the GM has any financial issues in its agenda, a statutory auditor should be present. Media representatives may participate in the GM, unless the subject matter of the meeting indicates that their presence might cause damage to the Company. The application for the presence of media representatives is submitted for voting by the Chairman of the GM immediately after the attendance list is signed.

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

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

6.4.1. Management Board

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

- Marcin Lewandowski – President of the Management Board;

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

In the last financial year, the composition of the Company's Management Board changed as follows:

- As a result of his resignation, Mr Jarosław Tomaszewski held the position of the President of the Management Board until 27 April 2018.
- As of 1 September 2018, Mr Marcin Lewandowski has been holding the position of President of the Management Board.

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

The Company's Management Board operates in accordance with the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Management Board. Pursuant to the Company's Articles of Association, the Management Board consists of 1 to 10 members appointed and recalled by the Supervisory Board, except for in the event when due to: (i) amendments to Articles 13.1 and 13.4 of the Articles of Association, (ii) amendments to the relevant provisions of law, (iii) appointment of the Supervisory Board in keeping with Article 385 § 5 and (or) 6 of the Commercial Companies Code, the key shareholder (COMSA) is not able to appoint such a number of the Supervisory Board members as would form the majority of its members, COMSA shall have the right to appoint and recall the Management Board members in the number corresponding to 50% of all the Management Board members (rounded down to the nearest integral number) plus one Management Board member. If the number of Supervisory Board members appointed by COMSA ceases to form the majority of the Supervisory Board members, a resolution recalling or suspending a member or members of the Management Board appointed by COMSA is adopted by the General Meeting by a 2/3 of the votes cast.

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

6.4.2. Commercial proxies

As at the date of issue of this report, the Company has the following commercial proxies:

- Elżbieta Okuła

During the last financial year, the power of commercial proxy granted to Mr Jan Sęktas was revoked. After the balance sheet date, the power of commercial proxy granted to Mr Radosław Zając was revoked.

The said commercial proxy may make representations on behalf of the Company jointly with one Management Board member or other Commercial proxy.

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

6.4.3. Supervisory Board

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

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

In the last financial year, there have been no changes to the Supervisory Board's composition.

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

The Supervisory Board members are appointed and recalled by the General Meeting, where the majority shareholder (COMSA S.A.) is authorised to appoint and recall four Supervisory Board members by way of submitting a written statement in that respect to the Company. Where the number of the Supervisory Board members is higher or lower than seven due to changes in Article 13.1 of the Articles of Association or relevant provisions of law, COMSA shall have the right to appoint and recall the Supervisory Board members in the number corresponding to 50% of all the Supervisory Board members (rounded down to the nearest integral number) plus one Supervisory Board member.

One of the Supervisory Board members appointed by the General Meeting shall meet the following independence criteria:

1) not be a member of the Management Board of the Company or any entity related thereto and not to hold such a position in the last five years;
2) not be an employee of the Company or any entity related thereto and not to hold such a position in the last three years;
3) not to receive, now or in the future, any significant additional remuneration from the Company or any entity related thereto, except for remuneration received as the Supervisory Board member;
4) not to represent, in any way whatsoever, the majority shareholder or any other shareholder holding at least 5% of votes at the General Meeting;
5) not to have, currently or during the past year, any significant business relationship with the Company or any entity related thereto, both directly or as a partner, shareholder, director or a key employee of the entity that has such a relationship;

6) not to be, currently or during the last three years a partner or employee of the current or former external auditor of the Company or any entity related thereto;

7) not to be a managing director or an executive director in any other company in which the Company's Management Board member is a non-executive director or a supervisory director, and not to have any other significant relationship with the Company's Management Board members through the performance of duties in other companies or entities;

8) not to be a member of the Supervisory Board for longer than three terms of office;

9) not to be a family member of an executive director or a managing director or any of the parties referred to in items 1) to 8).

The Supervisory Board whose members do not include an independent member of the Supervisory Board, regardless of the reason, is capable to adopt valid resolutions.

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

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

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

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

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

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

On 25 July 2013, the Company's Supervisory Board appointed from among its members the Audit Committee which currently consists of the following members:

- Mr Wojciech Napiórkowski (Deputy Chairman of the Audit Committee and independent member of the Supervisory Board) – completed a Master of Business and Administration (MBA) course in cooperation with London Business School and a Certified Financial Analyst (CFA) course, Level 3. In 1999-2003 he was an Investment Manager at Emerging Ventures Limited, and next he was an Investment Director at Advent International, where he was responsible for managing the processes of acquisition, restructuring and sale of companies in Poland. He held a similar position at Bridgepoint Capital in 2007-2011. He has worked for Abris Capital Partners (advisory services and transaction generation services on the Polish market) since 2011. In 2012-2014, he served as Vice-President of the Management Board of Investors TFI. Since May 2014, he has been Managing Director of Aktivist FIZ (the first Polish activist fund).

- Mr Fernando Perea Samarra (Member of the Audit Committee) – he has a degree in economics (University of Barcelona), marketing (E.S.A.A.D.E. Business School) and is a certified public accountant (Spanish Official Registry of Auditors). He is a member of the following associations: Professional Bar of Economist of Catalonia, Spanish Official Registry of Auditors, Spanish Institute of Financing Analysts. He has gained professional experience as: CFO at COMSA CORPORACIÓN DE INFRAESTRUCTURAS, S.L., one of the largest Spanish companies in the infrastructure and engineering market (since 2011); founder and partner in ADIGO – M&A Advisors, S.L. (2009-2011; General Manager – USA Business Development w AGUAS de Barcelona Group (AGBAR) (2008-2009); Chief Financial Officer at AGBAR Group (2002-2008). Mr Fernando Perea Samarra has expertise and competence in accounting or auditing of financial statements, as well as expertise and skills relevant to the industry in which the Parent Company and the Group operate.

- Mr Łukasz Rozdeiczer-Kryszkowski (Member of the Audit Committee and independent member of the Supervisory Board) – holds a degree in law with elements of commercial, financial or accounting law from the University of Warsaw and Harvard Law School. He has experience in construction disputes gained in the procedural practice department of Clifford Chance, he participated in proceedings in construction disputes representing the National Directorate for National Roads and Motorways (through the State Treasury General Counsel's Office) and against the National Directorate for National Roads and Motorways. In addition, he gained experience while serving on the supervisory boards of five companies, including the Audit Committee of AmRest Holdings SE, and as the President of the Management Board of a limited liability company.

In 2018, the Audit Committee held 4 meetings and adopted resolutions by means of direct remote communication.

Remuneration Committee

The Supervisory Board also appointed from among its member the Remuneration Committee as an advisory body for determining the amounts and principles of remuneration for the Company's Management Board members. The Remuneration Committee members are as follows: Mr Dominik Radziwiłł (Chairman), Michał Hulbój (member and independent member of a supervisory board) and Miquel Llevat Vallespinosa (member).

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

6.5. Description of key features of internal control and risk management systems used in the process of preparation of financial statements

The Issuer prepares its financial statements in accordance with the applicable regulations, and in particular with the International Accounting Standards, International Financial Reporting Standards and any interpretations related thereto and published in the form of regulations by the European Commission, hereinafter referred to as the "IASs", referred to in Article 2(3) of the Accounting Act of 29 September 1994 (as amended). Any issues not regulated in the IASs are governed by the provisions of the Accounting Act and the executive regulations issued on its basis.

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

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

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

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

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

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

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

Shareholders	Number of shares	% in share capital	Number of votes	% in votes at GSM
COMSA S.A.	16 156 193	31,43%	16 156 193	31,43%
OFE PZU "Złota Jesień"*	5 732 694	11,15%	5 732 694	11,15%
Other	29 510 661	57,41%	29 510 661	57,41%
Total	**51 399 548**	**100,00%**	**51 399 548**	**100,00%**

represented by the Powszechne Towarzystwo Emerytalne PZU S.A.

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

All shares in the Company are ordinary shares and do not confer any special powers.

6.8. Restrictions on voting rights

Resolutions of the General Meeting are passed by an absolute majority of the votes cast; however, resolutions on:

1) liquidation of the Company;
2) increasing the Company's share capital, cancelation of the Company's shares and reducing the Company's share capital;
3) issuing convertible bonds or other securities conferring the right to vote;
4) granting options conferring the right to acquire shares or other securities of the Company, and their terms;
5) waiving the Shareholders' pre-emptive rights to new shares;
6) selling the business or its organised part;
7) recalling or suspending the Management Board members or the Supervisory Board members;
8) merger, demerger and transformation of the Company;
9) conversion of shares back into certificated form;
10) amendments to these Articles of Association

must be adopted by a 2/3 (two thirds) majority of the votes cast, when required by law. Apart from the above restrictions and those following from the commonly applicable regulations, the Company's internal regulations do not introduce any additional restrictions.

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

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

6.10. Rules governing amendments to the Articles of Association of Trakcja PRKiI

Any amendments to the Company's Articles of Association are made in accordance with the rules set forth in the commonly applicable provisions of law.

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

Pursuant to the requirements of the Act on Statutory Auditors, Audit Firms, and Public Oversight of 11 May 2017 (the "Act"), both policies have been adopted and implemented in the Company. When selecting the audit firm and applying the policy for the provision of non-audit services by the audit firm, its affiliates and members of its network, the Company follows in particular the provisions of the Act and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (the "Regulation"), the Company's Articles of Association, internal regulations of the Company and generally applicable laws.
The Management Board is responsible for the execution of the policy for selection of the audit firm, and the audit firm is selected by the Supervisory Board, guided by a recommendation provided by the Audit Committee. The selection is made after completion of a procedure aimed at ensuring the selection of an independent and impartial audit firm and after analysis of the work performed by that firm at the Company

and going beyond the audit of the financial statements in order to avoid conflicts of interest. The procedure aimed at ensuring the selection of an audit firm should be commenced and conducted within a period allowing the statutory auditor to participate in the stock-taking of the Company's assets.

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

The following permitted non-audit services were provided to the Parent Company by an audit firm that audits its financial statements:

- assurance services for the Company's Integrated Annual Report for 2017, which involved the assessment of the quality and completeness of the data collected and of its compliance with the International Reporting Guidelines and the Global Reporting Initiative.
- review of the Respect Index questionnaire.

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

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

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

The Company seeks to apply the principles of diversity to the Company's governing bodies and key managers, but due to a very stable composition of the Company's Management Board they play a limited role in that area.

6.13. Information on the sponsorship policy

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

Warsaw, 30 April 2018

Marcin Lewandowski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

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

To the best of our knowledge, the financial statements of Trakcja PRKiI S.A. for the period from 1 January 2018 to 31 December 2018 and the comparative data have been prepared in compliance with the applicable accounting standards and give a clear, true and fair view of the assets, financial position and financial performance of Trakcja PRKiI S.A. The Directors' Report on the operations of Trakcja PRKiI S.A. in 2018 gives a fair view of the development, achievements and position of Trakcja PRKiI S.A., and includes a description of key risks and threats.

Marcin Lewandowski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Warsaw, 30 April 2018

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

To the best of our knowledge, the consolidated financial statements of Trakcja Capital Group for the period from 1 January 2018 to 31 December 2018 and the comparative data have been prepared in compliance with the applicable accounting standards and give a clear, true and fair view of the assets, financial position and financial performance of Trakcja Capital Group. The Directors' Report on the operations of Trakcja Capital Group in 2018 gives a fair view of the development, achievements and position of Trakcja Capital Group, and includes a description of key risks and threats.

Marcin Lewandowski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Warsaw, 30 April 2018

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

The Management Board of Trakcja PRKiI S.A., on the basis of the representation of the Supervisory Board, informs that the entity authorised to audit financial statements, auditing the annual separate and consolidated financial statements of, respectively: the Parent Company and Trakcja Group for the 12-month period ended 31 December 2018 – Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – has been selected in accordance with the provisions of law, and that:

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

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

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

Marcin Lewandowski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Warsaw, 30 April 2018

TRAKCJA
CAPITAL GROUP

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

FOR 2018

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

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Introduction

This statement (hereinafter referred to as the “Statement” or “Report”) has been prepared in accordance with Article 49b of the Accounting Act of 29 September 1994, as amended, which implements the guidelines of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 on disclosure of non-financial and diversity information. It includes non-financial information on Trakcja Group for the period from 1 January 2018 to 31 December 2018 and constitutes a separate part of the Directors’ Report on the operations of Trakcja Capital Group and Trakcja PRKiI S.A. in 2018 This statement is the second non-financial report published by Trakcja Group (hereinafter referred to as the “Group”). The Group has identified key non-financial performance indicators based on the Sustainability Reporting Guidelines issued by the Global Reporting Initiative.

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

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

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

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

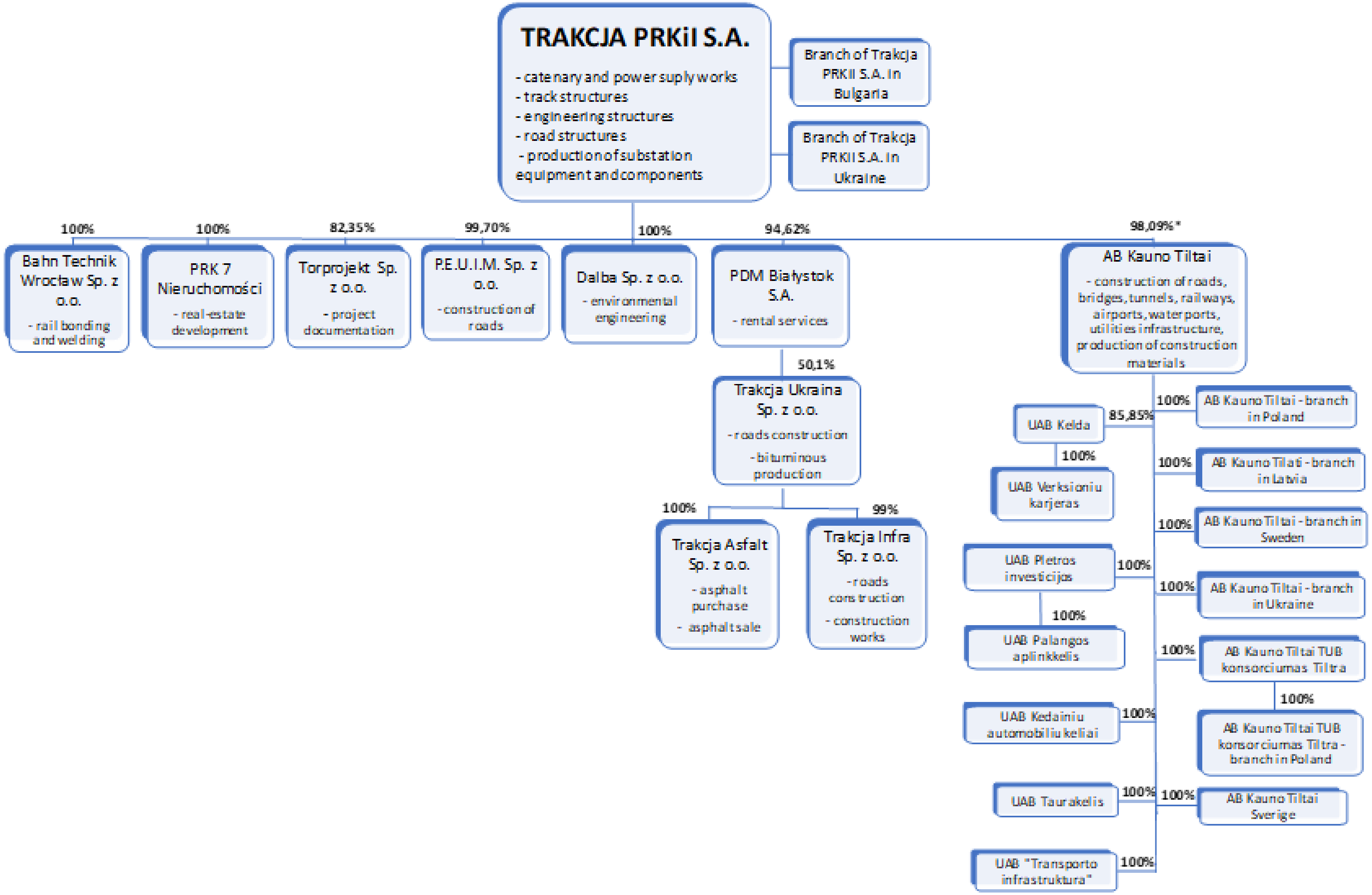
The CSR strategy was created by several key managers of the Parent Company, who are responsible, in particular, for strategy, stock exchange reporting, communication and human resources. It has been decided that essential aspects of the strategy should respond to the needs reported by stakeholders and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

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

The headquarters of the Group’s Parent Company (Trakcja PRKiI S.A.) are located in Warsaw at ul. Złota 59. The ultimate parent company in Trakcja Group is COMSA S.A., a Spanish company which prepares the consolidated financial statements that include, among many, the data of Trakcja Group.

Structure of the Group

Trakcja PRKiI is the Parent Company of Trakcja Group. The Group's composition and structure as at 31 December 2018 is presented in the diagram below.



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

I. Key stakeholders and relationships with them

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

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

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

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

A wide range of the Group’s stakeholders includes:

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

II. Business model

GRI 102-2 GRI 102-4

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

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

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

It is especially important to the Group that:

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

Sales structure

In 2017 and 2018, the Group generated revenues primarily from rail and road contracts.

	2018		2017	
	value	share	value	share
Railway works	647 463	41,5%	702 778	51,1%
Road works	712 200	45,6%	496 288	36,1%
Bridge works	32 961	2,1%	25 993	1,9%
Cubature works	4 508	0,3%	0	0,0%
Tramway works	19 728	1,3%	3 124	0,2%
Energy works	44 678	2,9%	30 370	2,2%
Production	50 262	3,2%	32 366	2,4%
Other areas of activity	48 848	3,1%	83 372	6,1%
Total revenues from sales	**1 560 648**	**100%**	**1 374 291**	**100%**

Trakcja PRKiI S.A.

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

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

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

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

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

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

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

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

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

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

AB Kauno Tiltai Group

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

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

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

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

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

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

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

PEUiM Sp. z o.o.

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

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

Dalba Sp. z o.o.

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

PDM Białystok S.A.

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

BTW Sp. z o.o.

Key activities of the Company are as follows:

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

PRK 7 Nieruchomości Sp. z o.o.

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

Torprojekt Sp. z o.o.

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

Cooperation with suppliers

GRI 102-9

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

Parent company

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

1. Track materials (rails, sleepers, switch sleepers, turnouts, rail buffer stops, geotextile, crushed stone, key aggregate, mixture, unsorted mix and other aggregates)

2. Energy materials (cables, lines, wires, luminaries, electricity poles, transformer stations, remote control cabinets)
3. Contact line materials (equipment, insulators, contact wires, copper wires)
4. Steel, metallurgical materials (steel constructions)
5. Construction materials
6. road materials (bituminous masses, surface concretes, road barriers, steel, aggregates, substructure materials, noise barriers)

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

The Company applies the following supplier selection methods:

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

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

Supplier selection criteria:

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

Goods procurement forms:

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

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

Safety requirements for subcontractors

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

AB Kauno Tiltai

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

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

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

Supplier selection methods:

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

Ordering forms

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

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

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

PEUiM Sp. z o.o.

Main groups of the construction materials purchased:

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

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

2. Other construction materials:

- Stone elements
- Concrete elements

- Materials for drainage and geosynthetics
- Cement and other binders.

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

Supplier selection and evaluation methods

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

III. Management

Risk management

Risk related to the construction sector

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

Risks and risk management system at the Parent Company

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

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

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

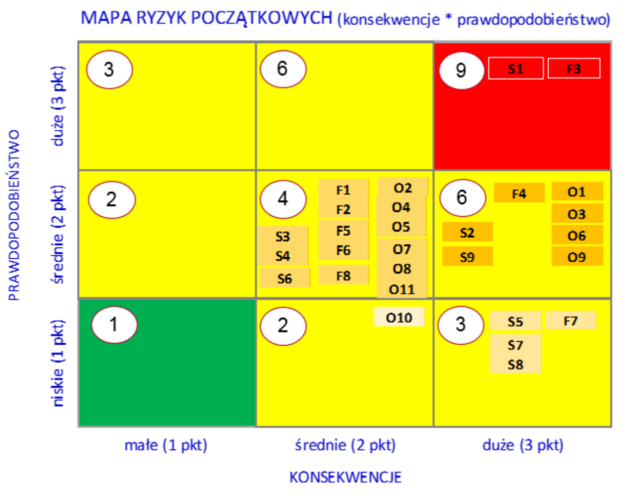
Identification and assessment of macro risks

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

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

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

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



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

Ethics and prevention of corruption

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

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

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

The Group has identified the following potential corruption risks:

- Risk that materials and services (employees and equipment) may be purchased from subcontractors at inflated prices
- Risk that liquid assets may be stolen
- Risk that assets may be undersold
- Risk that promises may be made which guarantee benefits to third parties as a result of the non-compliance with legal regulations
- Risk that bribes may be taken and given
- Risks that employees may be forced to carry out unlawful activities
- Risk of discriminatory treatment of employees
- Risk that confidential information may be stolen and sold to third parties
- Risk that transaction opportunities may be revealed to third parties.

Key Ethical Principles

The Group follows the following principles:

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

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

The Group’s Code of Ethics

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

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

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

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

In keeping with the Group's Code of Ethics, the Parent Company's employees are obliged to notify their supervisor of any irregularities or violations of the provisions of the Code of Ethics. In 2018 and 2017, such notifications were not received.

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

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

Anti-corruption education and employee statement

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

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

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

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

Fraud Signalling Channel

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

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

Policy on ethics and counteracting irregularities

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

Fraud Scheme Analysis

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

IV. Environmental protection

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

Environmental policy

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

AB Kauno Tiltai has adopted the following environmental protection policies:

- Emergency preparedness and response
- Environmental protection management policy.

Environmental objectives of the Parent Company and their achievement in 2018

Detailed objective	Task	Comments
Compliance of the Company's activities with the applicable provisions of law	Preparing a report on fees for using the environment in 2018 for individual voivodships	Carried out in the statutory period
Compliance of the Company's activities with the applicable provisions of law	Development of inventories for the generation of waste for 2018	Carried out in the statutory period
Compliance of the Company's activities with the applicable provisions of law	Keeping inventories regarding the generation of waste for 2018	Quarterly realized
Compliance of the Company's activities with the applicable provisions of law	Company registration in the Waste Data Base (BDO) pursuant to art. 49 of the Waste Act.	Carried out in the statutory period
A place in the ranking of the Wrocław City Office (the lowest level of communal wastewater)	Monitoring of industrial wastewater and not exceeding the limit values.	In progress
Compliance of the Company's activities with the applicable provisions of law	Conducting tests of rainwater and snowmelt. Collecting the results of measurements of environmental state.	Completed
Compliance of the Company's activities with the applicable provisions of law	Conducting construction works / investments, in naturally valuable areas, with the participation of natural or archaeological supervision - compliance with environmental and other environmental protection guidelines.	In progress
Reduction in the SO2 emissions to the air by 0.5% as compared to the preceding year	To use fuel oils with a lower sulphur content	In progress
Compliance of the Company's activities with the applicable provisions of law	To review the provisions of law concerning environmental protection and waste management Providing information on changes in environmental protection regulations to managers of organizational units.	Completed
Maintaining compliance with aspects regarding environmental protection during moving to a new location in Wrocław.	Transfer of unnecessary documents for utilization - hiring a specialized company.	Completed
Prevention of technical failures	To ensure that the installation and the electrical and mechanical equipment is fully operational; to maintain equipment on an ongoing basis	In progress
Prevention of soil contamination.	More frequent inspections of machines and devices, checking the tightness of the fittings. Replacement of car oils in service stations. The use of sorbents on construction sites.	In progress
Decrease in annual electricity consumption in relation to the previous year.	Purchase of power tools and devices with reduced electricity consumption. The use of energy-saving light bulbs and fluorescent lamps.	In progress

Factory Production Control System

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

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

The Group's environmental impact control

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

Item	Monitored Element	Method	Obligations	Frequency
1	Emissions from oil-powered boiler room	The boiler house is serviced by a specialist company once a month (monitoring of the level of emissions)	- inspection of installations, - CO2 detector fitted for the safety of employees, - use of appropriate fuel type - heating oil (certificate)	- inspection of boiler room once a month, - analysis of emissions twice a year
2	Industrial wastewater	Monitoring of content of petroleum hydrocarbons in tested sample, as well as other pollution values specified in the contract with MPWiK.	- phosphorus ≤ 15 mgP/l, petroleum hydrocarbons ≤ 15 mg/l, - maintenance of an operations book, - compliance with the provisions of contract with MPWiK	Analysis of wastewater content at least twice a year
3	Storm water	Monitoring of the content of total suspended solids and petroleum substances.	- total suspended solids content: ≤100 mg/dm3, - petroleum substance content: ≤15 mg/ dm3	Analysis of water content at least twice a year
4	Waste material	Maintenance of waste record sheets, in compliance with environmental protection regulations (Waste Materials Act).	Compliance with provisions specified in the waste generation permit and in the waste management programme	Continuous compilation of waste record sheet copies

Biodiversity

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

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

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

- the planning stage,
- the implementation stage,

- the operation stage,

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

As part of the construction work carried out by the Parent Company under the LCS Łowicz contract in May 2018, the environmental supervision authorities carried out field and botanical inspections of, among others, the Bednary - Łowicz route (km 73.050–77.600) and the Jackowice-Żychlin route (94.300–105.800) as well as the Bednary and Łowicz stations. In the above mentioned sections, the site inspections found localities of Helichrysum arenarium (protected species), as well of Byssomerulius corium and Dactylorhiza majalis (partially protected species). In accordance with the decision of the Regional Directorate for Environmental Protection and at the request and in accordance with the recommendations of the environmental supervision authority, the Contractor fenced off the localities of these plants in order to protect them against destruction. The inspections also found breeding and migration sites for amphibians. To protect the amphibians, standing water tanks were left to dry spontaneously. The excavations, which have not yet been filled in and which were found to contain the presence of the European fire-bellied toad (Mysłaków, km 75.350), were left by the Contractor to dry spontaneously. Guiding fences were also used in accordance with decisions of the Regional Directorate for Environmental Protection in Poznań and Łódź.

On the same contract, in October 2018, a botanical inspection was carried out to identify valuable and protected plant species that may be damaged as a result of the work. During the reporting period, plants in the monitored sections were observed at the after flowering stage, e.g. Artemisia vulgaris, Sinapis arvensis, Cirsium arvense or Solidago virgaurea. Some of them were characterised by the dying-out phase, e.g. Carex riparia, while some sparse species were fruiting, e.g. Plantago afra. Most of the fruiting plants were found on agricultural wastelands, field margins and stripes not mown just by the border with the railway line. The area by the water reservoir in km (102.500) has been annexed as a storage area for building materials. While constructing the warehouse, the contractor prevented the Phragmitetum australis formed near the reservoir from being destroyed or covered.

Environmental impact mitigation

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

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

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

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

Examples of adverse environmental impacts and preventing methods

During the inspection in April 2018, in the course of works on the Jaworzno-Szczakowa contract carried out by the Parent Company, the condition of habitats significant for amphibians on both sides of the track was verified. As a result of the inspection, the reproduction of some species was confirmed in the areas adjacent to the site. Grey toad was observed in the mating season, with cords of spawn in the area of small ponds and water reservoirs. Small deposits of Common Frog spawn were also reported. In order to protect the representatives of the herpetofauna from the negative impact of earthworks carried out due to the construction of acoustic screens and to protect young individuals from migration, the Contractor used herpetological fencing on the sections indicated by the environmental supervisors in the following sections:

- 21+900 – 22+530 km – left side at the level of Natura 2000 area,

-27+200 – 27+500 km – reed beds and a large reservoir near the tracks, left side,

- 27+400 – 27+450 km – reed beds, right side,

- 28+750 – 28+850 km – reed beds, left side,

- 28+950 - 29+110 km – swamps on both sides.

During the May field inspection, the locality of an orchid – Dactylorhiza majalis (a protected species) – was thoroughly recorded and properly fenced. Also the field inspections carried out on 23, 28 and 30 June confirmed that the contractor's activities were correct and consistent with the recommendations of the environmental supervisors (proper fencing of the site). At the request and in accordance with the recommendations of the environmental supervision authority, the contractor fenced off the location in order to secure it and limited the traffic of heavy equipment in the immediate vicinity.

Environmental risks

The Group has identified the following environmental risks:

Type of Hazard	Action
Machinery/installation fire.	Our plant and sites are equipped with operational extinguishing equipment; (emergency) fire procedure instructions are displayed.
Spillage of vehicle oil/fluid, etc.	The plant area and site yards are provided with containers filled with sawdust, to be used for the collection of fluid spillage. Oil containers are situated in special basins.
Spillage of heating oil in the boiler room.	Basins installed around heating oil tank units.
Spillage of machine oil into the soil (e.g. caused by a ruptured hose).	Neutralisation using sawdust.
Penetration of hazardous waste into the soil.	All hazardous waste is appropriately identified by name and code, and secured inside tanks and containers.
Noise	Planting trees and maintaining time regimes.
Negative impact on biodiversity	Genre analysis and study of migration paths.

Consumption of materials

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

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

No.	Optimised Use of Materials	Reduced Consumption
1	Elimination of workplace-assigned printers	Cartridges and toners
2	Replacement of lights with energy-saving ones	Fluorescent lights
3	Double-sided printing	Scrap paper
4	Modernisation of machinery and vehicle fleet	Oil, fuels, grease, filters, automotive parts
5	After cleaning and sifting, inspected crushed aggregate is re-used	Crushed aggregate
6	Crushed concrete is used for base courses in roads	Concrete rubble
7	Milled material is handed over to an asphalt manufacturing company	Asphalt

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

GRI 301-1 GRI 301-2

Parent Company:

	Year ended	
Material	**31.12.2018**	**31.12.2017**
Aggregate (t)	404 643	700 000
Plank (m3)	635	107
Cement (t)	10 008	818
Felt (m2)	5 146	1 252
Copper contact wire (t)	445	495
Steel and aluminum-steel wire (t)	40	0
Cables up to 1000 V (t)	77 799	0
Hot rolled flat products	398	162
Barbed wire of iron and steel; Stranded and twisted wire, cables, tapes and similar articles of copper or aluminum (t)	485	976
including bare wires (t)	*176*	*931*
Steel rods, hot-rolled, hot-drawn or extruded, (t)	231	215
Sections, not further worked than hot-rolled, hot-drawn or extruded, of steel (t)	2 026	2 050
Structural elements of steel rail or tram tracks (t)	14 825	17 894
including rail and tram rails (t)	*11 365*	*15 514*
Concrete debris	40	1 071
Reclaimed asphalt	3 300	60
Rail rubble	11 750	5 080
Earth masses	600 000	23 300

Group:

Material	Year ended 31.12.2018	Year ended 31.12.2017
Aggregate (t)	842 992	1 156 469
Sand (t)	313 801	353 584
Mixture of sand and gravel (t)	317 507	200 350
Gravel (t)	10 023	25 874
Aggregate (granite) (t)	54 480	71 991
Metal constructions (t)	5 818	9 877
Bitumen (t)	15 034	17 232
Mineral mixtures (t)	12 240	15 701
Asphalt (t)	17	18 362
Plank (m3)	384	107
Cement (t)	10 008	818
Felt (m2)	28	1 252
Copper contact wire (t)	445	495
Steel and aluminum-steel wire (t)	40	0
Cables up to 1000 V (t)	77 799	0
Hot rolled flat products	398	162
Barbed wire of iron and steel; Stranded and twisted wire, cables, tapes and similar articles of copper or aluminum (t)	485	976
including bare wires (t)	*176*	*931*
Steel rods, hot-rolled, hot-drawn or extruded, (t)	231	215
Sections, not further worked than hot-rolled, hot-drawn or extruded, of steel (t)	2 026	2 050
Structural elements of steel rail or tram tracks (t)	14 825	17 894
including rail and tram rails (t)	*11 365*	*15 514*
Concrete debris	40	0
Reclaimed asphalt	3 300	0
Rail rubble	11 750	0
Earth masses	600 000	0

Materials used for internal purposes:

Group:

	Year ended	
Waste (tonnes)	**31.12.2018**	**31.12.2017**
Wastes from concrete and concrete rubble	2 766	4 687
Asphalt waste	24 345	28 231
Rail rubble	11 750	5 080
Earth masses	600 000	23 300
Mixed building materials	770	5 815
Total	**639 630**	**67 113**
The total mass of materials produced	**2 293 671**	**99 498**
% of materials used for own needs	**28%**	**67%**

Parent Company:

	Year ended	
Material (t)	**31.12.2018**	**31.12.2017**
Wastes from concrete and concrete rubble	40	1 071
Reclaimed asphalt	3 300	60
Rail rubble	11 750	5 080
Earth masses	600 000	23 300
Total	**615 090**	**29 511**
The total mass of materials produced	**1 126 402**	**84 220**
% of materials used for own needs	**55%**	**35%**

Energy consumption inside the organisation

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

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

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

Group:

	Year ended	
Energy (GJ)	**31.12.2018**	**31.12.2017**
Heat energy (GJ)	3 582	4 498
Electricity (GJ)	9 125	12 050
Gas energy (GJ)	126 912	1 988
Heat energy (hard coal)	358	0
Heating oil (GJ)	18 146	4 891
Diesel oil (GJ)	187 510	113 924
Petrol (GJ)	10 334	5 212
LPG gas (GJ)	364	152 403
Total energy and fuel consumption	**356 332**	**294 965**

Parent Company:

	Year ended	
Energy (GJ)	**31.12.2018**	**31.12.2017**
Heat energy (warm in steam or hot water)	3 582	4 498
Electricity (GJ)	1 346	1 953
Gas energy (GJ0	bd	1 988
Heat energy (hard coal)	358	0
Heating oil (GJ)	3 935	4 891
Diesel oil (GJ)	92 512	86 611
Petrol (GJ)	8 637	5 212
PLPG gas (GJ)	218	156
Total energy and fuel consumption	**110 588**	**105 309**

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

Air emissions

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

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

In order to reduce the emissions by the oil boiler plant, the Parent Company optimises the operations of the oil boiler plant located in Wrocław at ul. Lotnicza 100. As a consequence, the emissions are not high and do not exceed the emission limit values.

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

In order to reduce emissions of dust during the transport of bulk materials, the means of transport are thoroughly covered with canvass.

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

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

Mitigation of environmental impact of products and services

GRI 413-2

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

Waste

GRI 306-2

The Group endeavours to reduce to a minimum the quantity of waste generated. Waste, if not used for internal purposes, is collected only by entities authorised by a relevant authority to carry out business activities in the area of waste management. The ongoing supervision is ensured through the quality and quantity records.
The table below presents the major types of waste generated in the Group and Parent Company in 2018 as compared to 2017 (t).
Group:

	Year ended	
	31.12.2018	**31.12.2017**
Non-hazardous waste (t)	**321 438**	**94 198**
Waste from concrete	22 568	11 014
Waste of other ceramic materials	2	29
Asphalt different	2 096	208
Iron, steel	133	119
Soil, soil, including stones	246 721	40 617
Rail rubble	38 533	37 124
Mixed construction waste	11 174	5 040
Others	212	38
Hazardous waste (t)	**4 551**	**328**
Waste wood, glass, plastic	4 481	326
Other waste:	70	2

	Year ended	
Method of dealing with waste	**31.12.2018**	**31.12.2017**
Used for own needs	7 496	67 113
Handing over to authorized entities	122 844	
Handing over to natural persons, in accordance with the ordinance of the Minister of the Environment of November 10, 2015	195 651	27 413

Parent Company:

	Year ended	
	31.12.2018	**31.12.2017**
Non-hazardous waste (t)	301 549	83 882
Waste from concrete	13 036	5 769
Mixed construction waste	902	1
Waste wood	120	0
Asphalt different	2 096	208
Iron, steel	133	120
Soil, soil, including stones	246 721	40 617
Rail rubble	38 533	37 124
Other	141	163
Hazardous waste	**4 483**	**330**
Waste wood, glass, plastic	4 481	326
Other	2	4

	Year ended	
Method of dealing with waste	**31.12.2018**	**31.12.2017**
Used for own needs	0	29 511
Handing over to authorized entities	110 382	
Handing over to natural persons, in accordance with the ordinance of the Minister of the Environment of November 10, 2015	195 651	

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

V. Social and employee aspects

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

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

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

The data concerning employment presented below relate to all Trakcja Group companies, except for those with registered offices in Ukraine.

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

Employment structure

GRI 102-8; GRI 405-1

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

	31.12.2018	31.12.2017
Women	313	286
Men	1 965	1 813
Total	**2 278**	**2 099**

	31.12.2018	31.12.2017
Women	196	174
Men	1 036	896
Total	**1 232**	**1 070**

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

Group:

	31.12.2018	31.12.2017
< 30 years	397	343
30-50 years	1 195	1 102
>50 years	686	654
Total	**2 278**	**2 099**

Parent Company:

	31.12.2018	31.12.2017
< 30 years	281	225
30-50 years	646	569
>50 years	305	276
Total	**1 232**	**1 070**

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

		31.12.2018			31.12.2017		
category	**gender**	**< 30 years**	**30 - 50 years**	**> 50 years**	**< 30 years**	**30 - 50 years**	**> 50 years**
contract of employment	Woman	67	188	58	62	161	63
	Man	330	1 007	628	281	942	590
civil-kaw agreement	Woman	4	3	12	7	9	5
	Man	1	17	10	4	53	11
self-employment	Woman	0	0	0	0	0	0
	Man	0	0	0	0	0	0

Parent Company:

		31.12.2018			31.12.2017		
category	**Gender**	**< 30 years**	**30 - 50 years**	**> 50 years**	**< 30 years**	**30 - 50 years**	**> 50 years**
contract of employment	Woman	54	110	32	45	95	34
	Man	227	536	273	180	474	242
civil-kaw agreement	Woman	4	2	12	5	8	4
	Man	0	4	10	3	13	11

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

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

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

Group:

category	gender	31.12.2018	31.12.2017
Contract for an indefinite period	Woman	269	243
	Man	1 781	1 579
Fixed-term contract	Woman	44	43
	Man	184	234

		31.12.2018	31.12.2017
Full time of work	Woman	303	279
	Man	1 955	1 804
Part-time work	Woman	10	7
	Man	10	9

Parent Company:

		31.12.2018	31.12.2017
Contract for an indefinite period	Woman	162	140
	Man	892	720
Fixed-term contract	Woman	34	34
	Man	144	176

		31.12.2018	31.12.2017
Full time of work	Woman	190	172
	Man	1 032	892
Part-time work	Woman	6	2
	Man	4	4

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

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

		31.12.2018			31.12.2017		
Category	**Gender**	**< 30 years**	**30 - 50 years**	**> 50 years**	**< 30 years**	**30 - 50 years**	**> 50 years**
Management	Woman	**0**	0	0	0	0	0
	Man	0	2	2	0	3	2
senior management	Woman	0	16	5	0	13	5
	Man	0	43	27	0	43	21
other management staff	Woman	5	21	9	0	17	9
	Man	14	135	34	17	155	42
White-collar	Woman	61	150	43	61	130	49
	Man	96	194	106	69	178	63
workers	Woman	1	1	1	1	2	1
	Man	220	608	485	195	563	461
Total		**397**	**1 170**	**712**	**343**	**1 104**	**653**

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

	31.12.2018			31.12.2017		
	< 30 years	30 - 50 years	> 50 years	< 30 years	0 - 50 year	> 50 years
Management	0%	50%	50%	0%	60%	40%
senior management	0%	65%	35%	0%	68%	32%
other management staff	9%	72%	20%	7%	72%	21%
White-collar	24%	53%	23%	24%	56%	20%
workers	17%	46%	37%	16%	46%	38%

Parent Company:

		31.12.2018			31.12.2017		
Category	**Gender**	< 30 years	0 - 50 year	> 50 years	< 30 years	0 - 50 year	> 50 years
Management	Woman	0	0	0	0	0	0
	Man	0	2	2	0	3	2
senior management	Woman	0	8	4	0	6	4
	Man	0	31	17	0	30	12
other management staff	Woman	5	15	5	0	12	6
	Man	13	106	23	16	128	30
White-collar	Woman	49	87	22	45	76	24
	Man	70	103	32	57	59	17
workers	Woman	0	0	1	0	1	1
	Man	144	294	199	107	254	180
Total		**281**	**646**	**305**	**225**	**569**	**276**

	31.12.2018			31.12.2017		
	< 30 years	30 - 50 years	> 50 years	< 30 years	30 - 50 years	> 50 years
Management	0%	50%	50%	0%	60%	40%
senior management	0%	65%	35%	0%	69%	31%
other management staff	11%	72%	17%	8%	73%	19%
White-collar	33%	52%	15%	37%	49%	15%
workers	23%	46%	31%	20%	47%	33%

Corporate bodies:

	31.12.2018		31.12.2017	
	Management	Supervisory Board	Management	Supervisory Board
30-50 years	50%	43%	60%	43%
> 50 years	50%	57%	40%	57%

Applicable to the Parent Company's Supervisory Board. In 2018 and 2017, the Supervisory Board members were all male and three of them were foreign citizens.

Pay equity

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

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

Group:

	31.12.2018	31.12.2017
Management	nd	nd
senior management	90%	65%
other management staff	86%	64%
White-collar	83%	84%
workers	78%	82%

Parent Company:

	31.12.2018	31.12.2017
Management	nd	nd
Senior management	107%	105%
Other management staff	86%	93%
White-collar	89%	103%
Workers	87%	98%

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

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

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

Employee turnover

GRI 401-1

The increased employee turnover in 2018 resulted from the restructuring process in the Parent Company and from changes in the labour market in Poland, and in particular, a continued decrease in the unemployment level. Taking the planned expansion of operations into account, the Parent Company’s focus in 2018 was mainly on recruiting employees.

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

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

Group:

	Year ended			
	31.12.2018		31.12.2017	
	number	part %	number	part %
< 30 years	248	62%	289	84%
30-50 years	300	25%	340	31%
> 50 years	116	17%	131	20%
Total	**664**	**29%**	**760**	**36%**

	Year ended			
	31.12.2018		31.12.2017	
	number	part %	number	part %
Women	65	21%	82	29%
Men	599	30%	678	37%
Total	**664**	**29%**	**760**	**36%**

Parent Company:

	Year ended			
	31.12.2018		31.12.2017	
	number	part %	number	part %
< 30 years	130	46%	143	64%
30-50 years	165	26%	154	27%
> 50 years	42	14%	37	13%
Total	**337**	**27%**	**334**	**31%**

	Year ended			
	31.12.2018		31.12.2017	
	number	part %	number	part %
Women	49	25%	53	30%
Men	288	28%	281	31%
Total	**337**	**27%**	**334**	**31%**

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

Group:

	Year ended			
	31.12.2018		31.12.2017	
	number	part %	number	part %
< 30 years	144	36%	175	51%
30-50 years	206	17%	251	23%
> 50 years	140	20%	135	21%
Total	**490**	**22%**	**561**	**27%**

	Year ended			
	31.12.2018		31.12.2017	
	number	part %	number	part %
Women	38	12%	31	11%
Men	452	23%	530	29%
Total	**490**	**22%**	**561**	**27%**

Parent Company:

	Year ended			
	31.12.2018		31.12.2017	
	number	part %	number	part %
< 30 years	47	17%	45	25%
30-50 years	81	13%	99	54%
> 50 years	49	16%	38	21%
Total	**177**	**14%**	**182**	**17%**

	Year ended			
	31.12.2018		31.12.2017	
	number	part %	number	part %
Women	27	14%	17	10%
Men	150	14%	165	91%
Total	**177**	**14%**	**182**	**17%**

After 2017, which was a period of strong growth of infrastructural investments in Poland, the situation in the Group has stabilised. Simultaneously, the Group continued to efficiently meet its ongoing human-resources needs and effectively acquired personnel for the development of the Group's new competences.

Training

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

The Group is committed to ensuring that its employees have opportunities for development. In order to achieve this it offers them trainings and support in further education. In 2018 and 2017, the Group's employees participated in over 11 thousand hours of training. The number of hours was at a stable level.

Number of training hours by employment category and gender:

Group:

	Year ended			
	31.12.2018		31.12.2017	
	Men	Women	Men	Women
Management	0	40	0	0
Senior management	312	1228	147	136
Other management staff	172	594	128	2 296
White-collar	742	1370	398	816
Workers	0	6951	0	7 325
Total number of training hours	**1 226**	**10 183**	**673**	**10 573**

Parent Company:

	Year ended			
	2018		2017	
	Women	Men	Women	Men
Management	0	40	0	0
Senior management	192	1 200	16	40
Other management staff	160	488	16	1 800
White-collar	576	967	160	216
Workers	0	6 032	0	5 792
Total number of training hours	**928**	**8 727**	**192**	**7 848**

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

Group:

	Year ended			
	31.12.2018		31.12.2017	
	Women	Men	Women	Men
Management	nd	10,0	nd	0,0
Senior management	14,9	17,5	8,2	2,1
Other management staff	4,9	3,2	5,3	10,6
White-collar	2,9	3,5	1,7	2,6
Workers	0,0	5,3	0,0	6,0
Total average number of training hours	**3,9**	**5,2**	**2,4**	**5,8**

Parent Company:

	Year ended			
	31.12.2018		31.12.2017	
	Women	Men	Women	Men
Management	nd	10,0	nd	0,0
Senior management	16,0	25,0	1,6	1,0
Other management staff	6,4	3,4	0,9	10,3
White-collar	3,6	4,7	1,1	1,6
Workers	0,0	9,5	0,0	10,7
hours	**4,7**	**8,4**	**1,1**	**8,8**

Risk associated with employment issues

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

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

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

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

Occupational health and safety

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

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

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

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

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

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

- injuries and losses related thereto to be prevented,

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

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

Its main tasks include:

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

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

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

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

OHS preventive actions

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

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

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

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

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

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

As the Parent Company is constantly enhancing its safety culture and due to the changing tender conditions, two early warning systems (ASO) were purchased in 2017. They are radio warning systems and are used to warn employees who work on tracks, with the use of an acoustic and optical signal, that a train is coming. A significant advantage of these systems is the fact that they are started automatically by a rail vehicle that approaches a place on the trucks where works are carried out. Systems provide for a high level of safety for the employees, in particular, when the tracks are available for vehicles moving with the speed V>100 km/h.

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

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

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

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

Safety Culture Declaration

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

- perceive safety as the paramount value for its employees and organisation,
- accept the safety standards and to integrate them into its everyday operations,
- move away from the practice of apportioning blame,
- record and analyse the incidents reported,
- report any type of irregularities or errors,

- continuously improve the management systems through the taking of corrective and preventive actions,
- adopt a zero tolerance approach to any violation of the provisions of law or internal procedures.

OHS training

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

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

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

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

Safe Work Leaders' Forum

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

"Visible – Safe" Campaign

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

Safety Day

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

Purchase of defibrillators

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

Accidents at work

GRI 403-2

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

Group:

	Year ended			
	31.12.2018		31.12.2017	
	Men	Women	Men	Women
Number of accidents	30	0	28	0
Accident rate (number of accidents x 1000 by average employment)	15,3	0,0	15,4	0,0
Number of incapacity for work related to accidents at work	1 245	0	1197	0
Number of post-accident days per one accident	41,5	nd	42,75	nd
fatal accidents	0	0	0	0
heavy accidents	0	0	0	0
other accidents	30	0	28	0
Number of registered occupational diseases	4	0	3	0

Parent Company:

	Year ended			
	2018		2017	
	Men	Women	Men	Women
Number of accidents	16	0	15	0
Accident rate (number of accidents x 1000 by average employment)	12,99	0	14,02	0
Number of incapacity for work related to accidents at work	838	0	966	0
Number of post-accident days per one accident	52	0	64	0
fatal accidents	0	0	0	0
heavy accidents	0	0	0	0
other accidents	16	0	15	0
Number of registered occupational diseases	0	0	0	0

Impact on local community

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

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

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

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

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

- construction of temporary roads in such places as to minimize the inconvenience caused to road users and local residents

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

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

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

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

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

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

- supervision of OHS coordinators, monitoring the course of daily work and activities performed in accordance with safety rules, training in procedures applicable to environmental protection, rules of conduct in the event of failure
- ongoing technical checks and timely inspections of construction equipment,
- absorbing agents stored at the construction site facilities, next to parking cars, machines and technical devices, allowing for immediate counteraction of leaks of harmful liquids, e.g. engine oil or hydraulic fluid, are kept in properly marked and hardened storage yards for "hazardous" waste resulting from construction works,

- carrying out ground works in the vicinity of trees or shrubs, or their complexes, only in harmony with the local environment
- storage of small waste in the labelled containers that additionally prevent environmental pollution
- hazardous waste is stored in containers placed on specially hardened storage yards, on construction sites or on sites leased specially for this purpose
- securing containers and storage areas against access by bystanders and animals
- optimal use of raw materials and consumables and minimization of waste (cleaned and sieved gravel is reused as a construction material, crushed concrete is used as a base for technical roads)
- use of protective mats to avoid damaging tree trunks by construction equipment, whereas in the case of repairs of possible damage to trees, compensatory plantings are carried out
- minimising noise by working during the day,
- construction of temporary roads in such places as to minimize the inconvenience caused to road users and local residents

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

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

CSR activities

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

Risks in relationships with local communities

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

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

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

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

5. Building confidence in the contractor – through non-standard actions such as information meetings with local population, educational trips to the construction site, provision of elements that improve visibility, etc.

Human rights and child labour and forced labour

GRI 408-1; GRI 409-1

The Group has adopted and adheres to the Group's Code of Ethics which is an expression of the Group's attitude towards the provisions of law that regulate civil rights and employment rights. In addition to the observance of national laws applicable in the locations in which the Group companies operate, they also adopted the work regulations and the remuneration regulations, whose aim is to provide for decent working conditions and fair compensation dependent on the position held, skills offered and performance achieved. Trakcja Group is a reliable employer providing stability of employment, which is demonstrated by the share of employees over 50 in the total employment, resulting mainly from the fact that new employees have been hired in that age group. The Group regulated issues related to decent working and living conditions of employees, and therefore basic human rights. The Group mitigates the risk of violation of labour regulations. A nature of work requires that many employees make business trips all around the country. By ensuring such benefits as residential premises, accommodation supplements, reimbursement of the costs of transport, coverage of additional costs of household outside the place of residence, provision for the high-quality healthcare services and supplements to leisure, recreation and social benefits, the Group has achieved a high level of employee satisfaction and respected their basic human rights.

The Group has not been notified of any cases of discrimination based on gender, belief, religious orientation or any other aspects, and therefore there is no indication that any additional regulations should be implemented in that area. In 2018 and 2017 no actions were identified which could pose a significant risk that child labour or forced labour or compulsory labour may be used by the Group.

VI. Selected GRI ratios presented herein

Ratio no.	Ratio name	Comments/ Description	Page
Organisational profile			
GRI 102-2	Primary brands, products or services	[Business model]	6
GRI 102-4	Number of countries where the organisation operates, and names of countries	[Scope of activities] [Business model]	6
GRI 102-8	Total number of employees by employment type, employment contract and gender	[Structure of employment]	29
GRI 102-41	Percentage of total employees covered by collective bargaining agreements	0% of employees were covered by collective bargaining agreements	
GRI 102-9	Supply chain description	[Cooperation with suppliers]	9
GRI 102-12	Externally developed economic, environmental and social charters or principles to which the organisation subscribes or which it endorses	[Occupational health and safety] Safety Culture Declaration	37
Ethics			
GRI 102-16	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	[Ethics and prevention of corruption]	13
Market presence			
GRI 103-1; GRI 103-2;	Approach to management.	[Pay equity]	33

GRI 103-3			
Raw materials and materials			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Consumption of materials]	22
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GRI 301-2	Percentage of materials used that are recycled input materials	[Consumption of materials]	22
Energy			
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GRI 302-1	Energy consumption within the organisation.	[Energy consumption within the organisation]	24
Biodiversity			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Biodiversity]	19
GRI 304-2	Description of significant impact of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	[Biodiversity]	19
Affluence and waste			
GRI 306-2	Total weight of waste by type and disposal method	[Waste]	26
Compliance with regulations			
GRI 307-1	Monetary value of fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	In 2018, as in the preceding years, the Company and Group Companies were not charged with any non-monetary sanctions for non-compliance by their employees with legal provisions of the environmental protection law.	
Employment			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management	[V. Social and employee aspects]	29
GRI 401-1	Total number and rates of new employee hires and employee turnover by age group, gender and region	[Employee turnover]	34
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	[V. Social and employee aspects]	29
Occupational health and safety			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Occupational health and safety]	38
GRI 403-1	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs	The OHS Committee represents 100% of employees.	

GRI 403-2	Identification of threats, risk assessment and investigation on accidents	[Occupational health and safety]	41
GRI 403-4	Occupational health and safety topics covered in formal agreements with trade unions	Company Regulations, signed and accepted also by the Chairpersons of Trade Unions. All changes in the Company Regulations must be accepted also by the Chairpersons of Trade Unions. Certain issues covered by the document: standards for personal protective equipment distribution and rules for their use; list of particularly arduous works or works harmful for women's health; list of particularly hazardous works and works associated with high physical or mental effort	
Education and training			
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GRI 404-1	Average hours of training per year per employee by gender and employee category	[Training]	36
Diversity and equal opportunities			
GRI 405-1	Composition of management bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	[Structure of employment]	29
Equal remuneration for women and men			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Pay equity]	33
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Labour practices grievance mechanisms			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Ethics and prevention of corruption]	13
Community			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Impact on local community]	43
GRI 413-2	Operations with significant actual and potential adverse impacts on local communities	[Biodiversity] [Mitigation of environmental impact of products and services] [Impact on local community]	19 26 43
Corruption			
GRI 103-1; GRI 103-2; GRI 103-3	Approach to management.	[Ethics and prevention of corruption]	13

Warsaw, 30 April 2019

Marcin Lewandowski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

TRAKCJA
CAPITAL GROUP

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR

ENDED 31 DECEMBER 2018

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

APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The Management Board of Trakcja PRKiI S.A. approved the consolidated annual financial statements of Trakcja Capital Group for the period from 1 January 2018 to 31 December 2018.

The consolidated annual financial statements for the period from 1 January 2018 to 31 December 2018 were prepared in accordance with the International Financial Reporting Standards ("IFRSs") approved by the European Union, published and applicable as at 31 December 2018.

Information included herein is presented in the following sequence:

1. Consolidated income statement for the period from 1 January 2018 to 31 December 2018, showing a net loss of PLN **110,172** thousand.
2. Consolidated statement of comprehensive income for the period from 1 January 2018 to 31 December 2018, showing negative total comprehensive income of PLN **101,566** thousand.
3. Consolidated balance sheet as at 31 December 2018, showing the total assets and total equity and liabilities of PLN **1,542,936** thousand.
4. Consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018, showing a decrease in net cash flows by PLN **4,503** thousand.
5. Consolidated statement of changes in equity for the period from 1 January 2018 to 31 December 2018, showing a decrease in consolidated equity by PLN **107,654** thousand.
6. Notes.

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

Certain financial and operational data provided herein have been rounded. Therefore, the sum of the amounts in a given column or row in certain tables provided herein may differ slightly from the total amount given for such a column or row.

Marcin Lewandowski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Warsaw, 30 April 2018

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(figures in PLN '000, unless stated otherwise)

CONSOLIDATED INCOME STATEMENT

	Note	1.01.2018 - 31.12.2018 *Audited*	1.01.2017 - 31.12.2017 *Audited*
Continued operations			
Sales revenue	13	1 560 648	1 374 291
Cost of goods sold	14	(1 644 890)	(1 280 956)
Gross profit (loss) on sales		**(84 242)**	**93 335**
Cost of sales, marketing and distribution	14	(5 936)	(5 430)
General and administrative costs	14	(58 329)	(50 991)
Other operating revenues	15	58 115	4 872
Other operating costs	16	(2 457)	(3 668)
Goodwill impairment	24	(24 243)	-
Operating profit (loss)		**(117 092)**	**38 118**
Financial revenues	17	4 153	5 888
Financial costs	18	(14 465)	(10 879)
Gross profit (loss)		**(127 404)**	**33 127**
Income tax	19	17 232	(1 084)
Net profit from continued operation		**(110 172)**	**32 043**
Net profit (loss) from discontinued operations	20	-	-
Net profit for the period		**(110 172)**	**32 043**
Attributable to:			
Shareholders of Parent entity		(111 006)	31 429
Non-controlling interest		834	614

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

	Note	1.01.2018 - 31.12.2018	1.01.2017 - 31.12.2017
Basic	21	(2,16)	0,61
Diluted	21	(2,16)	0,61

(figures in PLN '000, unless stated otherwise)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	1.01.2018 - 31.12.2018 *Audited*	1.01.2017 - 31.12.2017 *Audited*
Net profit for the period		**(110 172)**	**32 043**
Other comprehensive income:			
Other net comprehensive income that will not be reclassified into profit or loss under certain conditions:		**(272)**	**(581)**
Actuarial gains/(losses)	37	(272)	(581)
Other net comprehensive income that will be reclassified to profit or loss:		**8 878**	**(18 836)**
Foreign exchange differences on translation of foreign operations		8 657	(19 952)
Cash flow hedging instruments	40	221	1 116
Total other comprehensive income		**8 606**	**(19 417)**
Total comprehensive income for the period		**(101 566)**	**12 626**
Attributable to:			
Shareholders of Parent entity		(102 347)	11 849
Non-controlling interest		781	777

(figures in PLN '000, unless stated otherwise)

CONSOLIDATED BALANCE SHEET

ASSETS	Note	31.12.2018 *Audited*	31.12.2017 *Audited*
Non-current assets		**720 882**	**731 454**
Tangible non-current assets	22	297 285	266 853
Intangible assets	25	52 348	53 753
Goodwill from consolidation	24	308 782	327 996
Investment properties	23	20 445	20 097
Investments in other units		25	858
Other financial assets	26	4 511	44 147
Deferred tax assets	19.3	28 416	9 836
Prepayments	28	9 070	7 914
Current assets		**822 054**	**710 826**
Inventory	29	86 854	94 027
Trade and other receivables	30	328 890	324 094
Income tax receivables		3 900	9 642
Other financial assets	26	13 773	14 859
Cash and cash equivalents	31	116 687	112 184
Prepayments	28	13 313	9 233
Contracts with customers assets	33	206 887	-
Construction contracts and advances paid towards contracts being		-	146 787
Assets held for sale	34	51 750	-
TOTAL ASSETS		**1 542 936**	**1 442 280**

(figures in PLN '000, unless stated otherwise)

EQUITY AND LIABILITIES			
Equity attributable to shareholders of Parent entity	36	**645 539**	**756 979**
Share capital		41 120	41 120
Share premium		309 984	309 984
Revaluation reserve		5 768	5 765
Other capital reserves		383 833	361 588
Retained earnings		(111 006)	31 429
Foreign exchange differences on translation of foreign operations		15 840	7 093
Non-controlling interest	36	**8 841**	**5 055**
Total equity		**654 380**	**762 034**
Long-term liabilities		**93 112**	**116 953**
Interest-bearing loans and borrowings	39	66 371	87 661
Provisions	37	13 004	11 917
Liabilities due to employee benefits	38	4 810	5 127
Provision for deferred tax	19.3	8 858	7 810
Derivative financial instruments	41	8	4 351
Other financial liabilities		61	87
Short-term liabilities		**795 444**	**563 293**
Interest-bearing loans and borrowings	39	132 559	28 538
Trade and other liabilities	42	407 341	335 049
Provisions	37	59 101	14 179
Liabilities due to employee benefits	38	16 572	12 762
Derivative financial instruments	41	-	960
Accruals	45	711	416
Contracts with customers liabilities	33	141 258	-
Construction contracts and advances received towards contracts being performed		-	171 347
Advances received towards flats		-	42
Liabilities of group to be classified as held for sale	34	37 902	-
Total equity and liabilities		**1 542 936**	**1 442 280**

(figures in PLN '000, unless stated otherwise)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31.12.2018 Audited	Year ended 31.12.2017 Audited
Cash flows from operating activities			
Gross profit from continued operations		**(127 404)**	**33 127**
Adjustments for:		**92 689**	**23 754**
Depreciation		31 407	28 951
FX differences		450	(615)
Net interest and dividends		8 605	5 790
Profit on investment activities		(30 165)	(3 956)
Change in receivables		47 860	92 673
Change in inventory		4 630	(18 856)
Change in liabilities, excluding loans and borrowings		81 005	28 970
Change in prepayments and accruals		(5 094)	(30 437)
Change in provisions		33 304	(35 586)
Change in construction contracts		-	(25 632)
Change in settlements from contracts		(78 201)	-
Change in financial derivatives		(270)	(1 296)
Income tax paid		(1 933)	(10 552)
Other		(420)	707
Foreign exchange differences on translation of foreign operations		1 511	(6 407)
Net cash flows from operating activities		**(34 715)**	**56 881**
Cash flows from investment activities			
Sale (purchase) of intangible assets and tangible non-current assets		(30 790)	(34 598)
- acquisition		(32 275)	(43 285)
- sale		1 485	8 687
Sale (acquisition) of shares and stocks		(1 812)	(851)
- acquisition		(1 812)	(851)
Financial assets		636	(2 897)
- sold or repaid		9 014	15 303
- granted or acquired		(8 378)	(18 200)
Loans		-	(210)
- repaid		-	(210)
Interest received		267	161
Net cash flows from investment activities		**(31 699)**	**(38 395)**
Cash flows from financial activities			
Proceeds from payment to capital of a subsidiary from holders of non-controlling interest		2 187	-
Proceeds on account of taken borrowings and loans		112 953	5 187
Repayment of borrowings and loans		(14 338)	(13 457)
Dividends paid to shareholders of parent company		(5 140)	(25 700)
Dividend paid to non-controlling interests		(220)	(555)
Interest paid		(9 298)	(6 593)
Payment of liabilities under financial lease agreements		(12 652)	(11 370)
Other		43	(186)
Net cash flows from financial activities		**73 535**	**(52 674)**

(figures in PLN '000, unless stated otherwise)

Total net cash flows		**7 121**	**(34 188)**
Net FX differences		-	-
Cash at start of period		**112 172**	**146 360**
Assets held for sale - transfer	34	(2 618)	
Cash at end of period	**31, 32**	**116 675**	**112 172**

Cash excluded from the statement of cash flows as at 31 December 2018 comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.

(figures in PLN ‘000, unless stated otherwise)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of Parent entity										
	Share capital	Share premium	Revaluation reserve	Other reserve capitals			Foreign exchange differences on translation of foreign operations	Retained earnings	Total	Non-controlling interest	Total equity
				Hedging instruments	Actuarial gains/ (losses)	Results from previous years					
As at 1.01.2018 Audited	**41 120**	**309 984**	**5 765**	**(3 340)**	**(975)**	**365 903**	**7 093**	**31 429**	**756 979**	**5 055**	**762 034**
IFRS 9 implementation	-	-	-	-	-	(3 418)	-	-	(3 418)	-	(3 418)
As at 1.01.2018 after adjustments	**41 120**	**309 984**	**5 765**	**(3 340)**	**(975)**	**362 485**	**7 093**	**31 429**	**753 561**	**5 055**	**758 616**
Net profit for the period	-	-	-	-	-	-	-	(111 006)	(111 006)	834	(110 172)
Other comprehensive income	-	-	-	181	(269)	-	8 747	-	8 659	(53)	8 606
Total comprehensive income	**-**	**-**	**-**	**181**	**(269)**	**-**	**8 747**	**(111 006)**	**(102 347)**	**781**	**(101 566)**
Distribution of profit	-	-	-	-	-	26 289	-	(26 289)	-	-	-
Payment of dividends to parent undertaking shareholders	-	-	-	-	-	-	-	(5 140)	(5 140)	-	(5 140)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(220)	(220)
Acquisition of shares in a subsidiary	-	-	-	-	-	(625)	-	-	(625)	(1 202)	(1 827)
Acquisition of shares in a subsidiary	-	-	-	-	-	-	-	-	-	4 274	4 274
Other	-	-	3	-	-	87	-	-	90	153	243
As at 31.12.2018 Audited	**41 120**	**309 984**	**5 768**	**(3 159)**	**(1 244)**	**388 236**	**15 840**	**(111 006)**	**645 539**	**8 841**	**654 380**

(figures in PLN '000, unless stated otherwise)

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

NOTES

1. General information

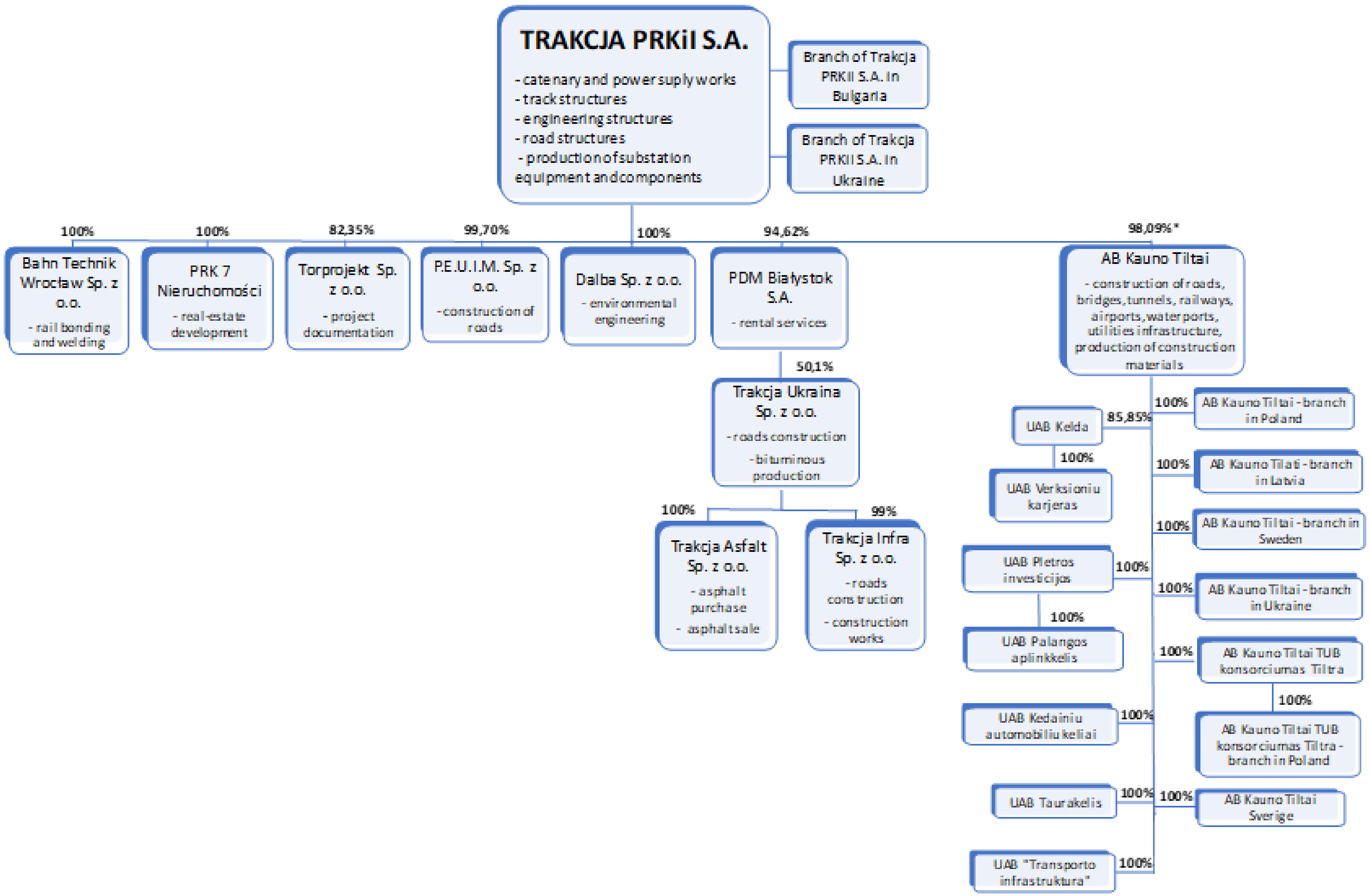
These consolidated financial statements of the Group cover the financial year ended December 31, 2018 and the comparable data.
Trakcja Group ("Group") consists of the Parent Company, namely Trakcja PRKiI S.A. ("Trakcja PRKiI", "Parent Company" or "Company"), its subsidiaries and a company classified as a joint venture until December 30, 2016 according to IFRS 11 (see: Note 2).
Trakcja PRKiI in its present form was established on November 30, 2004 as a result of the acquisition of Trakcja Polska S.A. by Przedsiębiorstwo Kolejowych Robót Elektryfikacyjnych S.A. ("PKRE S.A."). The name of the Company at the time was Trakcja Polska S.A. and was changed by Resolution No. 2 adopted by the Extraordinary
General Meeting on November 22, 2007. The change was entered in the National Court Register on December 10, 2007. The prior business name of the Company was Trakcja Polska - PKRE S.A. The Company operates under
the Articles of Association in the form of a notarial deed of January 26, 1995 (Rep. A No. 863/95), as amended.
On September 1, 2009 the District Court of the City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, registered the merger of Trakcja Polska S.A. as the acquiring company with Przedsiębiorstwo Robót Komunikacyjnych-7 S.A. as the company being acquired. The merger was settled and recognised in the accounting records of the company, to which the assets of the merged companies were allocated, i.e. Trakcja Polska S.A., under the pooling of interest method, as at August 31, 2009. The companies were effectively merged at the acquisition of control, i.e. on September 1, 2007, in accordance with IFRS 3.
On June 22, 2011 the District Court of the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, registered a change in the company name from Trakcja Polska S.A. to Trakcja – Tiltra S.A. The above change was registered pursuant to Resolution No. 3 adopted by the Company's Extraordinary General Meeting on November 27, 2013.
On December 21, 2012 the District Court of the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, registered a change in the Company's business name from Trakcja – Tiltra S.A. to Trakcja
S.A. The above change was registered pursuant to Resolution No. 3 adopted by the Extraordinary General Meeting of Shareholders on December 12, 2012.
On December 19, 2013 the District Court of the City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, registered the merger of Trakcja S.A. as the acquiring company with Przedsiębiorstwo Robót Kolejowych i Inżynieryjnych S.A. as the company being acquired. The merger was settled and recognised in the accounting records of the company to which the assets of the merged companies were allocated, i.e. Trakcja S.A., according to the pooling of interest method, as at December 31, 2013.
On December 19, 2013 the District Court of the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, registered a change in the Company's business name from Trakcja S.A. to Trakcja PRKiI
S.A. The above change was registered pursuant to Resolution No. 4 adopted by the Extraordinary General Meeting of Shareholders on November 27, 2013.
On January 29, 2002 the Company was entered in the National Court Register by the District Court in Warsaw, 19th Commercial Division, under KRS 0000084266. The Company was assigned the statistical number REGON 010952900, the tax identification number NIP 525-000-24-39 and the PKD code 4212Z.
The registered office of the Parent Company is located at 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 assembly services within the scope of railway and tram lines electrification. The Company specialises in the following types of activity:

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

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

2. Composition of the Group

Trakcja PRKiI is the Parent Company of Trakcja Group. The Group's composition and structure as at 31 December 2018 is presented in the diagram below.



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

As at December 31, 2018 the Group consists of the Parent Company (Trakcja PRKiI) and its subsidiaries. Fully-consolidated entities:

PRK 7 Nieruchomości Sp. z o.o.

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

Torprojekt Sp. z o.o.

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

Bahn Technik Wrocław Sp. z o.o.

On December 31, 2016 Trakcja PRKiI became the sole shareholder in Bahn Technik Wrocław Sp. z o.o. ("BTW"). The transaction details are provided in Note 3.1. Until December 31, 2016 the Group exercised joint control over BTW and classified the company as a joint venture pursuant to IFRS 11.

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

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

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

Dalba Sp. z o.o.

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

PDM Białystok S.A.

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

Establishment of Trakcja PRKiI S.A. in Bulgaria

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

AB Kauno Tiltai Group

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

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

AB Kauno Tiltai Group is composed of the following entities:

- UAB Kelda – a subsidiary with its registered office in Vievis (Lithuania); the company's subsidiary is:
  - UAB Verksioniu karjeras – a subsidiary with its registered office in Bagoteliu K (Lithuania);
- UAB Taurakelis – a subsidiary with its registered office in Tauragé (Lithuania);
- UAB Kedainiu Automobiliu Keliai – a subsidiary with its registered office in Kédainiai (Lithuania);
- TUB Konsorciumas Tiltra – a subsidiary with its registered office in Kaunas (Lithuania);
- UAB Pletros investicijos – a subsidiary with its registered office in Vilnius (Lithuania);
- UAB Palangos aplinkkelis – a subsidiary with its registered office in Vilnius (Lithuania) established to perform contracts in the framework of public-private partnerships;
- AB Kauno Tiltai Branch in Poland – a branch of AB Kauno Tiltai with its registered office in Białystok (Poland);
- AB Kauno Tiltai Branch in Latvia – a branch of AB Kauno Tiltai with its registered office in Rēzekne (Latvia);
- AB Kauno Tiltai Branch in Ukraine – a branch of AB Kauno Tiltai with its registered office in Kiev (Ukraine);
- AB Kauno Tiltai Branch in Sweden – a branch of AB Kauno Tiltai with its registered office in Norsborg (Sweden);
- AB Kauno Tiltai Sverige – a subsidiary with its registered office in Malmö (Sweden);
- AB Kauno Tiltai TUB konsorciumas Tiltra – branch in Poland
- UAB "Transporto infrastruktura" – a subsidiary with its registered office in Vilnius (Lithuania).

Moreover, Trakcja Group includes subsidiaries established in 2017 and having their registered offices in Ukraine: Trakcja Ukraina Sp. z o.o., Trakcja Infra Sp. z o.o., Trakcja Asfalt Sp. z o.o., an Establishment of Trakcja PRKiI S.A. in Ukraine.

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

3. Changes in the Group's structure and their consequences

On 8 June 2018, a Group company, AB Kauno tiltai, acquired 24.9% of shares in UAB Plestros Investicjios, as a result of which it holds 100% of shares in that company.

On 10 December 2018, the Issuer notified about the intention of AB Kauno Tiltai with its registered office in Lithuania to:

- to sell all shares in UAB Pletros investicijos with its registered office in Lithuania in which AB Kauno Tiltai holds 100% of shares;

- to transfer the rights and obligations, including the right to the receivables, of the Loan Agreement made between AB Kauno Tiltai and UAB Pletros investicijos

The sale of the above-mentioned company is an element of organizational optimization of the Trakcja Capital Group and will have a significant impact on the Group's financing structure, including a reduction in its debt level. On 26 April 2019, an agreement was signed between AB Kauno tital and SPV-39 UAB, as disclosed by the Parent Company in Current Report No 7/2019.

On 23 November 2018, the branch of AB Kauno Tiltai in Belarus was wound up.

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

4. Parent Company's Management Board

As at 31 December 2018 the Parent Company's Management Board was composed of the following members:

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

On 9 March 2018, the Company received from Mr Jarosław Tomaszewski a statement of resignation from the function of the President and Member of the Management Board of the Company. The resignation was submitted with effect from 30 June 2018.

On 27 April 2018, the Company received from Mr Jarosław Toamszewski a statement of resignation from the function of the President of the Management Board, Member of the Management Board and Chief Executive Officer. The resignation was submitted with effect from 27 April 2018.

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

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

5. Supervisory Board

As at 31 December 2018 the Parent Company's Supervisory Board was composed of the following members:

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

Both in the analysed period and after the balance sheet date there have been no changes to the composition of the Parent Company's Supervisory Board.

6. Approval of the consolidated annual financial statements for publication

These consolidated annual financial statements were approved for publication by the Management Board of the Parent Company on 30 April 2019.

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

In applying the accounting principles (policy) such factors as accounting estimates, assumptions and professional judgement of the entity's management are important. The assumptions and estimates made are based on the past experience and on factors considered reasonable, and their results are a basis for the professional judgement on the carrying amounts of the relevant assets and liabilities. The estimates and assumptions related thereto are verified as at the balance sheet date. Despite the fact that the estimates are based on the best knowledge regarding the current conditions and operations performed by the Group, the actual performance may differ from the estimates.

Where a given transaction does not fall within the scope of any standard or interpretation, the Management Board, guided by its subjective judgment, determines and applies accounting policies that ensure that the financial statements contain appropriate and reliable information and:

- give a clear, true and fair view of the Group's assets, its financial condition, results of operations and cash flows,

- reflect the economic substance of transactions,

- are objective,

- conform to the principles of prudent valuation and

- are complete in all material respects.

The professional judgement of the management, assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that carry a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities in the next financial year are discussed below.

7.1. Professional judgement

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is determined by means of appropriate valuation methods. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgement. The underlying assumptions are presented in Note 47. In 2018, the Company did not change the measurement method for financial instruments measured at fair value. The carrying amounts of financial assets and liabilities are close to their fair values.

Classification of leases

The Group classifies leases as either operating leases or finance leases, depending on its assessment of whether risks and rewards incidental to the ownership of the leased assets are borne by and accrue to the lessor or the lessee. Such assessment is based on the economic substance of each transaction. For additional information, please refer to Note 9.3.4, Note 43 and Note 44.

Investment property

The Group classifies properties into the category of property, plant and equipment, inventories or investment properties depending on their intended use by the Group.

Allocation of goodwill to cash generating units

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

Control over related entities

The parent controls a subsidiary when it is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Parent Company's Management Board states that it exercises control over individual entities based on the following:

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

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

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

Trakcja PRKiI holds 99.70% of shares in P.E.U.I.M. Sp. z o.o. and has full control over the subsidiary. Trakcja PRKiI has become the owner of P.E.U.I.M. through the acquisition of shares.

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

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

Trakcja PRKiI holds 98.09% of shares in AB Kauno Tiltai and has control over the subsidiary. Trakcja PRKiI has become the owner of AB Kauno Tiltai, which is the parent company of AB Kauno Tiltai Group, through the acquisition of its shares. The Group's composition and shareholdings are presented in Note 2 on the Group composition and structure.

Classification of joint contractual arrangements

Based on an analysis of an agreement, the Group verifies whether it exercises joint control and determines the type of joint arrangement in which it is involved by considering its rights and obligations under a given arrangement and the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangement and other facts and circumstances.

7.2. Uncertainty of estimates and assumptions

Determining the timing of satisfaction of performance obligations

<u>Sale of goods</u>

In order to indicate the precise moment of transfer of control, the Group considers each time whether:

a. the Group has a present right to payment for the asset,

b. the customer has legal title to the asset,

c. the Group has transferred physical possession of the asset,

d. the customer has the significant risks and rewards of ownership of the asset,

e. the customer has accepted the asset.

The moment of the transfer of control is the same as the moment when the significant risk and rewards of ownership have been transferred. In the absence of specific terms and conditions between the parties (e.g. by means of Incoterms), the revenue from the sale is recognised at the moment of delivery to the customer, in which case the customer is in physical possession of the goods and thus the legal title is transferred.

Sale of construction services

Performance obligations related to the implementation of long-term construction contracts are satisfied over time in connection with the fact that the customer controls an asset which is created or enhanced by the entity throughout the implementation period. In the opinion of the Group, execution of construction work on land owned by the principal indicates that it controls the asset being created on an ongoing basis. In the analysed case, there are specific provisions concerning acceptance of the work performed and if no acceptance is obtained, the contract is terminated and the ownership title to the work performed and the related land is transferred to the Group, however, in the Group's opinion, based on experience in the implementation of previous similar projects as well as the assessment of the progress of work, it is unlikely that the agreed parameters will not be reached, which would result in termination of the contract and transfer of title to the land.

Determining the transaction price and the amounts allocated to performance obligations

Variable consideration

Contracts for long-term construction services provide for variable consideration that depends on the completion dates and parameters achieved. In order to determine the transaction price, the Group evaluates facts and circumstances determining the probability of occurrence of each scenario. In the case of contracts for which the probability of one scenario is significantly higher than others, then the consideration determined according to the scenario in question is reflected in the transaction price. If the most likely scenario cannot be determined, the transaction price is set based on the expected value, i.e. determined as an average value weighted by the probabilities of all the scenarios under consideration. The estimate of variable consideration is not constrained.

Facts and circumstances determining the probability of occurrence of individual scenarios are reviewed at least at the end of each reporting period. Changes in the transaction price, if any, are recognised prospectively.

Significant financing component

The Group has decided to use the practical expedient and does not adjust the transaction price by the impact of a change in the time value of money in the case of contracts for which the Group expects, at contract inception, that the period between the moment when the Group transfers the good or service and the moment of payment will not exceed one year.

The transaction price of contracts for which the Group expects at contract inception that the period between the moment when the Group transfers goods or services and the moment of payment will be longer than one year is adjusted by a significant financing component. For advance payments, the Group recognises interest expense, whereas for payment terms longer than 12 months, the Group recognises interest income.

In order to estimate the significant financing component, it is necessary to determine the discount rate. The Group uses rates that would be reflected in a separate financing transaction between the entity and its customer at contract inception. In order to reflect the credit characteristics of the party that receives financing, various discount rates are applied to transactions in which the Group acts as the party that provides financing and the party that receives financing.

Discount rates are reviewed at least as at the date of preparation of the financial statements and are applied to contracts concluded after the date on which the rate was updated.

Provisions for additional works

Provisions for additional works are estimated based on the knowledge of the construction site (contract) directors with regard to the required or potential performance of additional works for the benefit of the contracting entity, in order to fulfil warranty obligations. The largest companies that are members of Trakcja Group are obliged to grant warranty for their services. The provision for additional works depends on the segment in which the companies operate and is based on the Group's historical data. This value is assessed on an individual basis and may be increased or decreased as appropriate. Any changes in these assumptions will affect the amount of the provisions. The carrying amount of the provisions for additional works as at 31 December 2018 is presented in Note 37 of the Notes.

Provisions for contractual penalties

The Group recognises provisions for contractual penalties in relation to any contracts under completion in the amounts in which they may and are likely to be imposed. Provisions are recognised based on the documentation regarding the contract completion and on the opinion of lawyers who participate in the ongoing negotiations and estimate the Group's potential future liabilities on the basis of their course. The carrying amount of the provisions for contractual penalties as at 31 December 2018 is presented in Note 37 of the Notes.

Measurement of employee benefit liabilities

Employee benefit liabilities for retirement benefits and jubilee bonuses in the current period are estimated on the basis of actuarial methods which take into account amendments to the remuneration regulations made on 3 June 2017. The amount of liability depends on various factors which are used as assumptions in the actuarial method. Key assumptions for determining the amount of liability are the discount rate and the average expected increase in wages. The assumptions made for this purpose and the carrying amount of employee benefit liabilities as at 31 December 2018 are presented in Note 38 of the Notes.

Deferred tax asset

The Group recognises deferred tax asset based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. If taxable income deteriorates in the future, this assumption may prove invalid. The Parent Company's Management Board reviews its estimates regarding the likelihood of recovering deferred tax assets taking into account changes in the factors on which such estimates were based, new information and past experience. The likelihood that deferred tax assets will be utilised against future taxable profits is based on budgets of the Group companies. Deferred tax assets are recognised by the Group companies to the extent that it is probable that taxable profit will be generated which will enable the deductible temporary differences to be offset. The Group's companies, which generated losses in the past and whose financial forecast does not project future taxable profits that would allow for negative temporary differences to be deducted, do not recognise any deferred tax assets in their books. The carrying amount of the deferred tax assets as at 31 December 2018 is presented in Note 19.3 of the Notes.

Amortisation and depreciation rates

Depreciation/amortisation rates are set based on the anticipated useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

Investment property

Investment property is measured at fair value. The value of investment properties is determined by independent appraisers who hold valid authorisations to perform such valuations. In selecting the approach and technique thereof, the Company followed the principles set forth in IFRS 13 and in the Real Estate Management Act and also in the Regulation of the Council of Ministers on the detailed principles of property appraisal and rules and method for preparing appraisal reports. Fair value of investment property was measured by way of applying measurement techniques that require a maximum use of observable data. The detailed information and carrying amount of the investment property as at 31 December 2018 is provided in Note 23 of the Notes.

Impairment of goodwill

Pursuant to IAS 36, cash-generating units to which goodwill has been allocated are tested for impairment annually by the Parent Company's Management Board. The tests carried out require estimation of the value in use of the cash-generating units ("CGU") based on their future cash flows, which were subsequently discounted to their present value using a discount rate. Goodwill was tested for impairment as at 31 December 2018. As a result of the tests performed as at 31 December 2018, an impairment loss on goodwill was recognised in the amount of PLN 24,243 thousand. Assumptions and essential information on the tests performed are provided in Note 24 of the Notes.

Impairment of inventories

The Management Board assesses whether there are any indications that inventories may be impaired, in accordance with Note 9.12. The determination of impairment requires the estimation of the net realisable value of inventories that have become obsolete or are no longer suitable for use. For additional information, see Note 29.

Expected credit loss and impairment of trade and other receivables

Pursuant to IFRS 9, the Group recognises a loss allowance for expected credit losses on trade and other receivables. For trade receivables, the Group applies a simplified approach for receivables analysed on a collective basis – for these receivables, an allowance for lifetime expected credit losses is calculated, regardless of the analysis of changes in credit risk. For other receivables and financial instruments held, the Group recognises an allowance for 12-month expected credit losses if the credit risk is low or has not increased significantly since initial recognition of receivables in the balance sheet and at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. The change in the impairment allowance for trade and other receivables is presented in Note 30.

Fair value measurement and measurement procedures

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

Information on valuation techniques and inputs used to measure the fair value of particular assets and liabilities is disclosed in Notes 23, 41 and 47.

8. Basis for preparation of the consolidated annual financial statements

The consolidated annual financial statements were prepared based on the historical cost approach, except with respect to investment property and derivatives which are measured at fair value.

The consolidated annual financial statements are presented in Polish zlotys ("PLN") and all amounts are expressed in thousands of Polish zlotys, unless indicated otherwise.

Certain financial data provided herein have been rounded. Therefore, the sum of the amounts in a given column or row in certain tables provided herein may differ slightly from the total amount given for such a column or row.

These consolidated annual financial statements have been prepared on the assumption that the Company would continue as a going concern in the foreseeable future. As at the date of authorisation of these consolidated financial statements, there are no circumstances which would indicate a threat to the Group continuing as a going concern. For details, see Note 64 to these financial statements.

Moreover, for the purpose of financial reporting, fair value measurements are categorised into three levels depending on the degree to which the inputs used to measure fair value are observable and their significance to the entire measurement. These levels are as follows:

- Level 1: Level 1 inputs are (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2: Level 2 inputs are inputs other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly,

- Level 3: Level 3 inputs are unobservable inputs for the asset or liability.

8.1. Statement of compliance

The consolidated annual financial statements for the period from 1 January 2018 to 31 December 2018 were prepared in accordance with the International Financial Reporting Standards ("IFRSs") approved by the European Union, published and applicable as at 31 December 2018.

Any standards other than those that were in force as at 31 December 2018 and were approved by the EU as at the preparation hereof are described in Note 10.

The effect of application of new accounting standards and changes in accounting policy is described in Note 10.

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

Measurement currency and reporting currency

The Polish zloty is the measurement currency of the Parent Company and those of the companies within the Group that are located in Poland, as well as the reporting currency herein. Measurement currencies of the Group's companies that operate abroad are as follows:

- the euro (EUR) for the companies with their registered offices in Lithuania;

- the Swiss crown (SEK) for AB Kauno Tiltai Sverige and a Branch of AB Kauno Tiltai in Sweden with their registered offices in Sweden;

- the Belarusian rouble (BYR) for a branch of AB Kauno Tiltai in Belarus;

– the Bulgarian lev (BYN) for the establishment of Trakcja PRKiI in Bulgaria;

- the Ukrainian hryvnia (UAH) for the establishment of Trakcja PRKiI and, a Branch of AB Kauno Tiltai in Ukraine and other companies with their registered offices in Ukraine.

9. Significant accounting principles

9.1. Principles of consolidation

The consolidated financial statements include the financial statements of Trakcja PRKiI and the financial statements of its subsidiaries drawn up as at 31 December each year.

Subsidiaries are consolidated from the date when the Group obtains control of them and cease to be consolidated when the control is lost. If the Parent Company loses control of a subsidiary, the consolidated financial statements account for the subsidiary's results for such part of the reporting year in which control was held by the Group.

Trakcja Group also includes subsidiaries established in 2017 and having their registered offices in Ukraine: Trakcja Ukraina Sp. z o.o., Trakcja Infra Sp. z o.o., Trakcja Asfalt Sp. z o.o., an Establishment of Trakcja PRKiI S.A. in Ukraine and a Branch of AB Kauno Tiltai in Ukraine. The Company started to consolidate these companies' data in 2018.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the Parent Company, using uniform accounting principles applied to economic events and transactions of a similar nature.

All the Group's members, except for companies domiciled in Ukraine, Bahn Technik Wrocław Sp. z o.o., Torprojekt Sp. z o.o., Dalba Sp. z o.o. and PDM Białystok S.A. keep their accounts in accordance with the International Accounting Standards. Bahn Technik Wrocław Sp. z o.o., Torprojekt Sp. z o.o., Dalba Sp. z o.o. and PDM Białystok S.A. keep their accounts in accordance with the accounting policies defined in the Accounting Act of 29 September 1994, as amended (the “Act”), and secondary legislation issued thereunder (the “Polish Accounting Standards” or “PAS”). Their financial figures are restated for the Group's purposes.

All balances and transactions between Group entities, including unrealized profits resulting from transactions within the Group, have been fully eliminated. Unrealized losses are eliminated unless they are evidence of impairment.

Non-controlling interests are that portion of the profit or loss and net assets which are not owned by the Group. Non-controlling interests are presented as a separate item in the consolidated income statement and the consolidated statement of comprehensive income and also the consolidated balance sheet (within equity), separately from the equity of the owners of the Parent Company. At the acquisition of non-controlling interests, any difference between the acquisition price and the carrying amount of the acquired share in the net assets is recognised in equity.

9.2. Foreign currency translation

The Polish złoty is the functional currency of the Parent Company.

Transactions denominated in foreign currencies are translated by the Group companies into their functional currencies at a relevant exchange rate effective for the transaction date.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the closing rate. Currency translation differences are recognised under finance income or costs, as appropriate.

Non-monetary assets and liabilities recognised at historical cost in a foreign currency are disclosed at the historical exchange rate from the transaction date. Non-monetary assets and liabilities recognised at fair value in a foreign currency are translated at the exchange rate effective on the date of determining the fair value.

(figures in PLN '000, unless stated otherwise)

The following exchange rates were used to determine the carrying amounts:

Exchange rate on the reporting date:	**31.12.2018**	**31.12.2017**
PLN/USD	3,7597	3,4813
PLN/EUR	4,3000	4,1709
PLN/SEK	0,4201	0,4243
PLN/BYN*	1,7615	1,7908
PLN/BGN	2,1985	2,1326
PLN/UAH	0,1357	0,1236

The average exchange rate, calculated as the arithmetic average of the rates prevailing on the last day of each month during the period:	**31.12.2018**	**31.12.2017**
PLN/USD	3,6227	3,7439
PLN/EUR	4,2669	4,2447
PLN/SEK	0,4147	0,4403
PLN/BYN*	1,7759	1,9495
PLN/BGN	2,1816	2,1703
PLN/UAH	0,1330	0,1402

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

As at the balance sheet date, the financial statements of foreign operations are translated into the Polish currency as follows:

- relevant balance sheet items – at the mid-rate quoted by the National Bank of Poland for the balance sheet date, except for items in equity which are translated into PLN at the historical exchange rate from the date of acquisition of control of a foreign operation;
- relevant items of the income statement and the statement of comprehensive income – at the exchange rate being the arithmetic mean of the monthly mid-rates as quoted by the National Bank of Poland for the reporting period;
- relevant items of the statement of cash flows (investing and financing activities) – at the exchange rate being the arithmetic mean of the monthly mid-rates as quoted by the National Bank of Poland for the reporting period. Foreign exchange gains or losses on such translation are recognised in the statement of cash flows as "Exchange differences on translation of foreign operations".

Foreign exchange gains or losses on such translation are recognised directly in the equity as a separate item, i.e. Exchange differences on translation of foreign operations.

Upon disposal of a foreign operation, translation differences accumulated in the equity and relating to that operation are transferred from equity to the income statement (as a reclassification adjustment) when the gain or loss on disposal of such operation is recognised.

9.3. Tangible non-current assets

9.3.1. Non-current assets

Non-current assets are measured at cost less any accumulated depreciation and impairment losses. Non-current assets are initially recognised at cost increased by all costs directly related to their purchase and all costs necessary to bring the asset to the working condition for its intended use. This also includes costs of replacing components of machines and equipment, when incurred, if the recognition criteria are met. Any costs incurred after the non-current asset concerned has been put into operation, such as costs of maintenance or repairs, are recognised directly in profit or loss when incurred.

(figures in PLN '000, unless stated otherwise)

The carrying amount of non-current assets includes any costs of modernisation; however, any costs of regular and significant overhauls which are necessary to prevent failures and whose value differs significantly in individual reporting periods are recognised as prepayments. Any potential carrying amount of the previous overhaul is derecognised from the carrying amount of the non-current asset concerned.

Non-current assets (except for any land other than used for production of minerals by means of an open-cast method) are depreciated using the straight-line method over their expected useful life. Non-current assets held under finance leases are depreciated according to the method determined by the Company for its own non-current assets. However, if the transfer of the ownership title is not certain, non-current assets held under finance leases are depreciated during their expected useful life or their lease term, whichever is shorter.

Any non-current assets which are not accepted for use directly, because they need to be assembled or adapted or have any other additional works carried out or expenses incurred, are recognised as non-current assets under construction until they are accepted for use.

Any non-current assets which are unused, withdrawn from use or intended for disposal or sale are measured at the amount no higher than their realisable net sales price.

Non-current assets are depreciated using the straight-line method. The depreciation rates applied reflect the expected useful life of non-current assets.

The expected useful life of non-current assets adopted by the Group is as follows:

- hardware	3 years or a contractual term
- tools and instrumentation	5 years
- ground containers	22 years,
- boilers and furnaces	from 14 to 25 years,
- metalwork machinery	from 5 to 14 years,
- gas compressors	from 10 to 20 years,
- power generation devices	13 years,
- heavy-duty building machinery	from 5 to 30 years,
- small equipment and machines	10 years,
- technological wagons	from 14 to 25 years,
- storage, workshop and utility wagons	from 14 to 20 years,
- storage and utility containers	from 5 to 25 years,
- passenger vehicles and delivery vehicles (up to 3.5 t)	from 5 to 7 years
- trucks (above 3.5 t)	from 5 to 10 years,
- office and social facilities	from 10 to 26 years

The residual value, useful life and depreciation method of non-current assets are reviewed on an annual basis and changed if necessary, where the change made is effective from the beginning of the next financial year.

A non-current asset can be derecognised from the balance sheet on disposal or when no future economic benefits are expected from its further use. Any gain or loss on derecognition of the non-current asset concerned from the balance sheet (calculated as the difference between the potential net sales proceeds and the carrying amount thereof) is recognised in profit or loss for the period, in which the non-current asset is derecognised.

9.3.2. Non-current assets under construction

Non-current assets under construction are measured at the total amount of costs directly related to their acquisition or manufacturing. This also includes any net financial costs relating to the servicing and collateral of the debt incurred (paid or accrued) in relation to non-current assets under construction until they are put into operation.

Any non-current assets under construction which are discontinued or intended for disposal or sale are measured at the amount no higher than their realisable net sales price.

Non-current assets under construction are depreciated no earlier than after their construction has been completed and they have been put into operation.

Any cost of refurbishing is recognised in the carrying amount of the tangible non-current assets, if the recognition criteria are met.

9.3.3. Right of perpetual usufruct of land

The Group has the right of perpetual usufruct of land. The Group classifies the right of perpetual usufruct of land according to the method of acquisition:

- the right of perpetual usufruct of land obtained free of charge based on an administrative decision I recognised as an operating lease in the off-balance sheet.
- the right of perpetual usufruct of land acquired against consideration from third parties or through the acquisition of subsidiaries is recognised as land in the tangible non-current assets at cost less any depreciation.

Depreciation is disclosed in the income statement as general and administrative costs.

The right of perpetual usufruct of land is depreciated over the period for which it has been granted. This period is 99 years.

9.3.4. Leases

Finance leases that transfer all the risks and all the benefits related to the item leased to the Group are recognise in the balance sheet as at the lease commencement date at the lower of the fair value of the asset leased or the present value of the minimum lease payments. Lease payments are apportioned between financial costs and a reduction in the outstanding balance of the lease liability in such a manner as to produce a fixed interest rate on the remaining balance of the liability. Financial costs are recognised directly in profit or loss.

Non-current assets held under finance leases are depreciated according to the method determined by the Company for its own non-current assets. However, if the transfer of the ownership title is not certain, non-current assets held under finance leases are depreciated during their expected useful life or their lease term, whichever is shorter.

Leases that transfer primarily all the risks and all the proceeds related to the item leased to the lessor are recognised as operating leases. Lease fees and later lease instalments due under operating leases are recognised as costs in profit or loss using the straight-line method over the term of the lease concerned.

9.3.5. Assets held for sale

This group includes tangible non-current assets and investment properties, if their carrying amount is recovered mainly through their sale, and not through their further use. Assets held for sale are measured by the Group at the lower of the carrying amount and fair value less any costs to sell, and their depreciation is discontinued. Assets held for sale are available for immediate sale in their current state, under the conditions that typically apply to the sale of such assets, their sale is highly likely and their buyer is actively searched for by the Company's management.

Assets classified as held for sale are disclosed in the balance sheet separately from other assets.

9.4. Investment properties

The Group's investment properties include buildings and land held to earn rentals or for capital appreciation.

Investment properties acquired in separate transactions are initially measured at cost including transaction costs.

Otherwise, e.g. when acquired as a result of the acquisition of another business entity, they are initially measured at their fair value.

After their initial recognition all investment properties are recognised at their fair value.

The Group estimates the value of investment properties as at December 31 each year on the basis of valuations carried out at such a date by independent experts. Throughout the year, as at the consecutive balance sheet dates, i.e. March 31, June 30 and September 30, the Group assesses whether there are any indications that the fair value may need to be changed.

Fair value can be determined by way of:

- updating it on the basis of valuation carried out by an independent expert with recognised and suitable professional qualifications and experience in evaluating properties with similar location and characteristics;

- analysing data derived from the active market (market prices) of similar investment properties with similar location and in similar condition.

Assets are transferred to and from investment properties only if their intended manner of use is changed.

Any change in fair value of the investment properties during a given year is recognised in profit or loss. If the Group's asset is transferred to the investment properties, the difference between its fair value and its carrying amount is recognised in revaluation reserve, and any further changes thereto are recognised in profit or loss.

If the entity may determine the fair value of an investment property previously measured at cost during its construction, it measures such a property at its fair value. Once the construction of the investment property measured at fair value is completed, the difference between the fair value of such a property on that day and its earlier carrying amount is recognised in profit or loss.

9.5. Impairment of non-financial assets

As at the balance sheet date, the Group is required to assess whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired or that an annual impairment test needs to be conducted in order to check whether an asset has been impaired, the Group calculates the asset's recoverable amount.

The asset's recoverable value corresponds to the higher of the asset's or cash-generating unit's fair value less any selling costs or the asset's or cash-generating unit's value in use. It is determined for individual assets unless a given asset independently generates no cash flows which are mostly separate from those generated by other assets or a group of assets. If the carrying amount of an asset is higher than its recoverable value, the asset is impaired and an appropriate impairment loss is recognised. For the value in use to be determined, the forecast cash flows are discounted to their present value using a discount rate before tax, which reflects the present market estimation of the value of money in time and a risk typical of a given asset. Impairment losses on assets used in the ongoing business activities are recognised in other operating costs.

As at each balance sheet date, the Group decides whether any circumstances occurred indicating that an impairment loss on a given asset recognised in previous periods is to be kept or whether it should be decreased. If appropriate circumstances occurred, the Group estimates the recoverable value of such an asset. The previously recognised impairment loss is reversed if, and only if, the estimated value used for determining the recoverable value of a given asset has changed since its recognition. In such an event, the carrying amount of a given asset is increased up to its recoverable value. The increased amount cannot exceed the asset's carrying amount, which would be determined (less any accumulated depreciation or amortisation), if in the previous years the asset concerned was not impaired at all. The reversal of the impairment loss on a given asset is recognised as revenue directly in the income statement, unless such an asset is recognised in the revaluated value, then the reversal is recognised as an increase in the revaluation reserve. Upon the reversal of the impairment loss, in the following periods the amortisation/depreciation amount is adjusted in such a way as to allow for the verified carrying amount of a given asset less its residual value to be amortised/depreciated on a regular basis over the remain useful life of such an asset.

9.6. Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of a qualifying asset are capitalised in the cost of the asset in accordance with IAS 23. Any other borrowing costs are recognised in profit or loss when incurred.

9.7. Intangible assets

Intangible assets acquired in a separate transaction are recognised in the balance sheet position at cost. Intangible assets acquired through the acquisition of a business are recognised in the balance sheet at fair value as at the acquisition date. Following initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses, if any.

Expenditure incurred on internally generated intangible assets, excluding capitalised development costs, is not capitalised and is charged against profits in the period in which it is incurred.

Intangible assets with definite useful lives are amortised throughout their useful lives and tested for impairment each time there is an indication of impairment. The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of future economic benefits embodied in an asset are disclosed by changing the amortisation period or amortisation method, as appropriate, and are accounted for as changes in accounting estimates. Amortisation charges on intangible assets with definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and those that are not used are tested for impairment annually at the level of the separate asset or the relevant cash generating unit.

9.7.1. Research and development costs

Research and development costs are recognised in profit or loss as costs when incurred. Any development expenditure incurred as part of a given project is carried forward to the next period, when it is assumed that it will be recovered in the future. After the initial recognition of development expenditure, the historical cost model is applied, according to which assets are recognised at cost less any accumulated amortisation and impairment losses.

Any expenditure carried forward to the next period is amortised over the expected period of revenue generated from sale of a given project.

Development costs are tested for impairment on an annual basis if a given asset has not yet been put into operation or, more frequently, when during the reporting period there is any indication that their carrying amount may be impossible to recover.

As at each balance sheet date, any development costs that are in progress are disclosed in intangible assets as a separate item ("Intangible assets under construction").

The rules applied to the Group's intangible assets can be summarised as follows:

	Patents and licences	**Cost of development works**	**Computer software**
Useful life	In case of patents and licences used under agreements for a definite period, their useful life period adopted includes an additional period for which their use can be extended	3 years	2 years
Applied amortisation method	Straight-line method	Straight-line method	Straight-line method
Internally generated or acquired	Acquired	Internally generated	Acquired
Impairment tests	Annual	Annual	Annual

Any gain or loss on derecognition of intangible assets is calculated as a difference between the net sales proceeds and the carrying amount of such assets, and recognised in profit or loss for the period, in which the assets are derecognised.

9.7.2. Goodwill

Goodwill arising on acquisition of a business is initially recognised at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is carried at acquisition cost less accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if there is any indication of impairment. Goodwill is not amortised.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the business combination. Each unit or group of units to which goodwill has been allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be greater than a single operating segment, determined in accordance with IFRS 8 *Operating Segments* before aggregation.

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the Group recognises an impairment loss. Impairment losses for goodwill cannot be reversed in subsequent reporting periods. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the cash-generating unit's business, the goodwill pertaining to the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on disposal of the part of business. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

9.8. Financial instruments

In accordance with IFRS 9 *Financial Instruments*, the Group recognises a financial asset or a financial liability in its statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument.

Initial recognition of a financial instrument:

The Group classifies financial assets into relevant category depending on the business model for financial assets management and on the characteristics of the contractual cash flows (SPPI test) for a given financial asset. The analysis of the intra-group agreements and the terms of the other financial instruments did not identify the conditions leading to the failure of the SPPI test. With respect to the business model, all debt financial assets held by the Group are held to collect contractual cash flows.

After initial recognition, the Group measures each financial asset:

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

Financial assets measured at amortised cost

The Group measures a financial asset at amortised cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group classifies trade and other receivables, deposits under bank guarantees, loans granted, financial assets under a concession agreement as well as cash and cash equivalents as assets measured at amortised cost.

Following the initial recognition, trade and other receivables are measured at amortised cost using the effective interest rate method, taking into account the expected credit loss, whereby trade and other receivables maturing within less than 12 months from the recognition date (i.e. without a financing component) are not discounted and are measured at their nominal value, less the expected credit loss.

The Group uses simplified methods of measurement of financial assets and liabilities measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment of the amount receivable or settlement of the liability does not exceed 90 days.

Financial assets accounted at amortized cost, where the Group applies simplifications, are measured at initial recognition at the amount due, and subsequently, including at the end of the reporting period, at the amount of the payment due less the expected credit loss.

Financial assets measured at fair value through profit or loss

The Group does not hold any equity instruments. The Group recognises derivative instruments not designated for hedge accounting purposes as assets measured at fair value through profit or loss.

Option to measure at fair value through profit or loss and option to measure at fair value through other comprehensive income

IFRS 9 allows for classification of instruments into the category of fair value through profit or loss regardless of whether or not the tests described above are met, if such classification eliminates or significantly reduces the accounting mismatch. The Group does not use this classification option.

IFRS 9 allows for classification of equity instruments as measured at fair value through other comprehensive income. Instruments classified in this category are measured at fair value and changes in fair value are recognised directly in other comprehensive income without any transfer to profit or loss at the moment of sale. The Group does not use this option.

The general model is used by the Group for financial assets measured at amortised cost - other than trade receivables and assets from contracts with customers.

In the general model, the Group monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.

Credit losses are defined as the difference between all contractual cash flows that are due to the entity and the cash flows that the entity expects to receive. This difference is discounted using the original effective interest rate.

The Group accounts for forward-looking information in the applied parameters of expected credit losses estimation model through the expert, management adjustment of base ratios of probability of default. To calculate the expected credit loss, the Group determines the probability of default for receivables estimated on the basis of an analysis of the value of outstanding invoices and the default rate estimated on the basis of the value of outstanding invoices.

In accordance with IFRS 9, for trade receivables measured at amortised cost, the Capital Group applies a practical simplification, whereby the lifetime expected losses may be assessed on the basis of an "age table of past due receivables" based on historical data, applying the principles set forth in the standard for current and expected economic conditions which are determined on the basis of an expert adjustment.

In the calculation of the expected credit loss, the Capital Group applied a practical simplification in accordance with IFRS 9 - lifetime expected credit losses on trade receivables are assessed in terms of "age table of past due receivables". Requirements:

- Based on historical experience
- Determines fixed % of allowances
- The tables differ depending on the historical experience of each customer group

For trade receivables, the Capital Group applies a portfolio approach whereby historical data on the ratio of uncollected receivables to total receivables that have reached a specified delinquency bracket for each risk category are analysed. The Capital Group has defined the following brackets:

- Paid on or before the due date
- Paid up to 30 days after the due date
- Paid 31-90 days after the due date
- Paid 91-180 days after the due date

- Paid 181-365 days after the due date
- Paid later than 365 days after the due date
- Unpaid

For two financial years prior to the year under analysis (T-2 and T-1), the Group determines how many invoices issued during the year were finally paid in each of the brackets. On this basis, the next statement is created - a cumulative statement of total sales on invoices for subsequent periods (how many of the invoices issued in a given year were in the bracket of 0-30 days past due for at least 1 day, how many invoices were in the bracket of 31-60 days for at least 1 day, etc. up to the amount of invoices that were never paid).

The amount of receivables unpaid is applied to each of the aggregated amounts in order to calculate the portion of the receivables in a given bracket that will not be recovered. This percentage is used as the allowance ratio for the bracket. The amount of unpaid receivables may be adjusted either upwards or downwards depending on the Group's expectations concerning future non-recoverable amounts due to trends in the factors affecting the recoverability of receivables.

weights are assigned to the allowance ratios for each year under review and the weighted average allowance ratio is calculated for each bracket.

This calculation method ensures calculation of future expected credit losses based on historical loss experience for each age bracket of receivables and enables modification of the allowance ratio for expected changes in the recoverability of receivables.

As at each balance sheet date, the Group individually assesses the expected losses on recognised receivables and the probability of their occurrence for infrastructure entities. This assessment is made on the basis of the estimated outcome of negotiations in the case of disputes. Due to the fact that this group includes entities without bankruptcy capacity, the Group does not estimate the probability of default on contractual terms, but only the recoverable amount of receivables following the arrangements made with these entities regarding the final value of the work performed.

For other entities, the Group applied the model of group assessment of expected losses in line with the simplified approach defined in IFRS 9. Under this model, the Group estimates the allowance for lifetime credit losses on receivables from entities with similar credit risk characteristics. For the purpose of estimating the expected credit loss, the Group uses historical levels of credit losses depending on past due periods, adjusted by current expectations as to the development of these factors in the future.

Impairment of receivables reduces their carrying amount by using an expected loss account and recognising them as cost of sales or finance cost, respectively, depending on the type of receivables write-down. Reversal of the expected credit loss on receivables is recognised as a decrease in the cost of sales or finance costs.

Equity instruments are recognised in accordance with IAS 27 at cost less impairment losses.

A derivative measured at fair value through profit or loss may be designated as a hedging instrument. Hedging instruments are subject to special measurement rules.

Presentation

Financial assets and financial liabilities are presented as non-current unless they mature within twelve months after the balance sheet date.

Derecognition of assets

A financial asset (or a part of a financial asset or a group of similar financial assets) is derecognised from the balance sheet if:

- the contractual rights to receive the cash flows from the financial asset expire;

- the Group has transferred its rights to receive the cash flows from the asset and either (a) it has transferred substantially all risks and rewards of ownership of the financial asset, or (b) it has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset but it has transferred control over the financial asset; or
- the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows in full and without undue delay to a third party under a transfer agreement.

If the Group has transferred its rights to receive the cash flows from an asset to another entity and it has neither transferred nor retained substantially all risks and rewards of ownership and the transfer has not resulted in the transfer of control over the asset, the asset is recognised to the extent the Group has continuing involvement in such asset. The Group's continuing involvement in the form of guaranteeing the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of the consideration received that the Group could be required to pay.

9.9. Investments in jointly controlled entities

Since the acquisition of control of Bahn Technik Wrocław Sp. z o.o. on 30 December 2016, the Group has not held any shares in any jointly controlled entities. Until 30 December 2016, the investment was consolidated as a joint venture in accordance with IFRS 11, and currently the Group does not have any significant jointly controlled entities.

9.10. Derivative financial instruments

Derivative financial instruments used by the Group to hedge against currency risk include in particular IRSs. Such derivative financial instruments are measured at fair value. Derivative instruments are recognised as financial assets if their value is positive and as financial liabilities if their value is negative.

Gains or losses from changes in fair value of derivative instruments that do not comply with the hedge accounting criteria are recognised directly in profit or loss.

The fair value of currency IRS contracts is determined by reference to the current interest rates for contracts with a similar maturity date.

9.11. Hedge accounting

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

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

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

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

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

9.12. Inventory

Inventory is measured at cost no higher than realisable selling price as at the balance sheet date. The cost does not include:

- any costs arising from unused production capacity and production losses,
- any costs of storage, unless they are indispensable for the manufacturing process,
- any margin on internal turnover (any margin on services rendered by the auxiliary business activities for the core business activities and any margin on internal sales between different sections of the core business activities), which is excluded together with the cost of internal turnover,
- any general and administrative costs and any costs of sales, marketing and distribution.

Any inventory that is used or sold is measured at the prices (costs) of the assets, which were acquired (manufactured) first by the Group, i.e. according to the FIFO (First in First out) method. Write-downs of inventory made because its value has declined or adjusted to the net realisable value are recognised in the balance sheet and classified as part of the cost of goods sold.

Reversals of write-downs are recognised as decreases in the cost of goods sold

The net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

9.13. Cash and cash equivalents

Cash and short-term deposits in the balance sheet include cash at bank and in hand as well as short-term deposits with an original maturity of three months or less.

The Group discloses cash deposited on escrow accounts and cash blocked on the accounts of the property development companies under cash and cash equivalents, while for the purpose of consolidated statement of cash flows – the balance of cash at the beginning and at the end of the financial year is reduced by the above cash, and the change in the carrying amount is recognised under cash flow from operating activities.

9.14. Equity

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

Share capital is recognised in its nominal value, as specified in the Parent Company's Articles of Association and entered in the commercial register.

Any declared, but unpaid, contributions to share capital are recognised in called-up share capital. Own shares and called-up share capital decrease the Group's equity.

Revaluation reserve is created in accordance with the provisions of the commercial law, according to which contributions to the revaluation reserve must constitute at least 8% of the profit for a given financial year, until it constitutes at least one third of share capital.

Share premium account is the surplus of the issue price over the nominal value.

Any costs of share issue at the establishment of a joint-stock company or at an increase in share capital decrease share premium account down to the surplus of the issue value over the nominal value of shares.

Revaluation reserve also includes:

- Previous years' profits,
- Hedging instruments,
- Actuarial gains (losses).

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

9.15. Interest-bearing loans, borrowings and debt securities

All the loans, borrowings and debt securities are initially recognised at cost corresponding to fair value of received cash less any costs associated with the obtaining of a loan or borrowing.

After the initial recognition, interest-bearing loans, borrowings, debt securities and finance lease liabilities are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost includes any costs associated with the obtaining of a loan or borrowing, as well as any costs of discounts or bonuses obtained at the settlement of the liability.

Any gain or loss is recognised in the balance sheet as at the derecognition of the liability from the balance sheet and as a result of write-down calculation

9.16. Trade and other liabilities

After initial recognition, the Group measures financial liabilities:

- at amortised cost,
- at fair value through profit or loss.

Short-term trade liabilities are reported at amounts payable. Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

Financial liabilities other than financial liabilities measured at fair value through profit or loss are measured as at the balance sheet date at amortised cost (i.e. they are discounted using the effective interest rate). Short-term liabilities, with maturities of up to 365 days, are measured at amounts due.

Derecognition of a financial liability

A financial liability (or a part of a financial liability) is derecognised from the statement of financial position when it is extinguished, i.e., when the obligations specified in the contract are discharged, cancelled or expired.

A financial liability (or part of it) is extinguished when the debtor either:

- discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services; or
- is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor. (If the debtor has given a guarantee this condition may still be met.)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

9.17. Provisions

Provisions are recognised, if the Group has an obligation (legal or customarily expected) resulting from past events, and if it is likely that meeting such an obligation shall result in the outflow of economic benefits being necessary, and if the amount of such an obligation can be reliably estimated. If the Group expects that the costs covered by the provision will be reimbursed, for example, under an insurance contract, such a reimbursement is recognised as a separate asset, but only when it is certain that such a reimbursement will be made. Any costs related to a given provision are recognised in loss or profit less any certain reimbursements.

If an impact of the value of money in time is significant, the provision is determined by discounting the forecast future cash flows to their present value, using the gross discount rate that reflects the present market value of money in time and any risk related to a given liability. If a discount-based method is applied, an increase in the provision over time is recognised as financing costs.

9.18. Retirement and pension benefits and jubilee bonuses

In accordance with the corporate remuneration systems, employees of the Group companies are entitled to jubilee bonuses and retirement and pension benefits. Jubilee bonuses are paid to employees who have worked in the Company for a certain number of years. Retirement bonuses are paid on a one-off basis at the moment of retiring. The amounts of retirement and pension benefits and jubilee bonuses depend on the employee's work records and average remuneration. The Group creates provisions for future liabilities from retirement and pension benefits and jubilee bonuses in order to assign costs to relevant periods. Pursuant to IAS 19, jubilee bonuses are other long-term employee benefits, and retirement benefits are programmes for certain benefits upon the termination of the employment period. Present value of these liabilities as at the balance sheet date is determined in accordance with the generally applicable actuarial methods. Accrued liabilities are equal to the discounted payments to be made in the future, taking into account the turnover of employment, and relate to the period up to the balance sheet date. Demographic data and information about the turnover of employment are based on historical data. Any actuarial gains or losses on the measurement of the retirement and disability pension benefit programmes are recognised in other comprehensive income, whereas any actuarial gains or losses on the measurement of jubilee bonuses are recognised in profit or loss. Any other costs related to the programmes for specific benefits are recognised in a full amount in profit or loss for the period in which they are incurred.

9.19. Prepayments

Prepayments include in particular:

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

Prepayments are settled respectively to the lapse of time or the quantity of services rendered. The time and manner of settlement depends on the nature of the costs settled on a prudent basis.

If costs attributable to future periods are not settled within the nearest 12 months from the balance sheet date, they are disclosed in the balance sheet as a separate item ("Long-term prepayments")

9.20. Settlements under contracts with customers

9.20.1. Contract asset

In the statement of financial position, the Group recognises a contract asset, i.e. the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time. This item of the statement of financial position includes, in particular, assets relating to completed and delivered works under long-term construction contracts that have not yet been invoiced and the recognition of revenue in connection with the transfer of control over products or goods that will be invoiced in the future.

9.20.2. Contract liabilities

In the statement of financial position, the Group recognises a contract liability, i.e. the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group recognises a contract liability mainly in relation to contracts for which the payment is made in advance and in relation to the consideration for construction works received in advance for services not yet provided by the Group. Moreover, a contract liability arises in the case of completed transactions with customers entitled to discounts that will be settled jointly at the end of a specified period.

9.20.3. Short-term receivables

The Group recognises an amount receivable if its right to consideration is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

After initial recognition, short-term trade and other receivables are measured at the amortised cost using the effective interest method less any impairment losses.

9.20.4. Revenue from contracts with customers

The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

Revenue category	Character, essential payment terms and the moment of fulfilment of the obligation to perform the service.
Revenues from the sale of long-term construction services	Construction and assembly contracts cover various market segments, including: - tracks and contact line, - electric power engineering, - bridges, viaducts, tunnels, - roads and motorways. Obligations to perform the service related to the implementation of long-term construction contracts are met in time. Revenue from these services is recognized in the statement of profit or loss, in proportion to the degree of the implementation thereof as at the reporting date. The degree of service implementation is assessed on the basis of the level of cost advancement. Revenue is not recognized when there is significant uncertainty in connection with obtaining due remuneration, reimbursement of costs incurred or the potential return of products and goods. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.
Revenues from the sale of design services	The Trakcja Group offers specialized design services in the field of study works, feasibility studies, conceptual designs, construction and executive projects, assembly projects, as-built projects, bidding and costing documents, as well as other specific analyses in the field of railway construction and railway transport technologies. Obligations to perform a service related to the implementation of project work are met at a specific point in time - at the moment of the transfer of control over the products of the project works. Revenue is not recognized when there is significant uncertainty in connection with obtaining due remuneration, reimbursement of costs incurred or the potential return of products and goods. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.
Revenue from renting equipment	The Group offers rental services for railway construction works and all general construction works. Revenue from renting of the equipment is recognized in the statement of profit or loss in time in the amount of monthly invoices issued. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.

Revenue from the sale of products, goods and materials	Revenue from the sale of products, goods and materials is recognized in the statement of profit or loss when control over them has been transferred to the buyer. In principle, the transfer of control is the moment when the significant risks and benefits resulting from their ownership were transferred. In the absence of specific arrangements between the parties (e.g., by applying Incoterms), sales revenue is recognized at the time of delivery to a customer. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.
Revenue from developer activities	Revenue from developer activities is recognized in the statement of profit or loss when the control over an apartment is transferred to a buyer. This is the moment of signing a notarial deed transferring the ownership of a real estate, premises or other part of a property (e.g., garage) to a client. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.
Revenue from the sale of transport services	Trakcja PRKiI S.A. (joint stock company) is a licensed railway carrier. Transport services are rendered both under separate transport contracts and as part of the delivery of products and goods sold by the Group. In the case of contracts for the supply of products together with the provision of transport services, revenue from the sale of transport services provided to a customer after the control over products or goods are recognized in the statement of profit or loss at the end of transport. Remuneration for transport services is indicated in contracts with customers and is included in sales invoices. Transaction price is assigned to transport services according to their individual sales price resulting from the applicable price lists. The Group does not apply payment terms, as well as advance payments exceeding 12 months, thus the contracts do not contain a significant element of financing.

9.20.5. Revenue from consortium agreements

The Group implements certain contracts under consortium agreements whereby it acts as a consortium leader. The Group does not recognize in the income statement the portion of revenue and expenses attributable to consortium members – in accordance with IFRS 11.

At the same time, the Group recognises in the balance sheet only that portion of assets and liabilities that is attributable to the Group's share in jointly controlled operations.

9.21. Interest income

Interest income is recognised as it accrues (using the effective interest rate method) by reference to the net carrying amount of a particular financial asset.

9.22. Dividend income

Dividends are recognised when the shareholders' right to receive the payment is established.

9.23. Taxes

9.23.1. Current tax

Any income tax on revenues generated in Poland is calculated in accordance with the Polish tax regulations, but any income of entities that carry out their activities abroad are taxed in accordance with local tax regulations, including provisions of double taxation conventions. The applicable income tax rate in Poland is 19%, in Lithuania 15%, Sweden 22%, Belarus 18% and Ukraine 18%.

Liabilities and receivables from the current tax for the current and previous periods are measured at the expected payment for the tax authorities (the expected refund from the tax authorities) calculated according to tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

9.23.2. Deferred tax

Deferred income tax is calculated using the balance sheet liability method in respect of all the temporary differences occurring as at the balance sheet date between the tax value of assets and liabilities and their carrying amounts disclosed in the consolidated financial statements.

Provisions for deferred income tax are recognised with reference to all the positive temporary differences:

- except for when a provision for deferred income tax arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination and having no effect at the moment of its being carried out on the gross profit or loss or on the taxable income or tax loss; and
- for the positive temporary differences arising from investments in subsidiaries or affiliated parties and shares in joint ventures, except for when the due dates for the reversal of temporary differences are subject to the investor's control and when it is likely that in the foreseeable future the temporary differences will not be reversed.

Deferred tax assets are recognised in relation to all the negative temporary differences and also to unused tax assets and unused tax losses carried forward to the next years, to the extent which makes it probable that future taxable income will be available to be reduced by the aforementioned differences, assets and losses:

- except for when the deferred tax assets related to the negative temporary differences arise from the initial recognition of an asset or liability in a transaction other than a business combination and having no effect at the moment of its being carried out on the gross profit or loss or on the taxable income or tax loss; and
- for the negative temporary differences arising from investments in subsidiaries or affiliated parties and shares in joint ventures, the deferred tax asset is recognised in the balance sheet only to the extent which makes it probable that in the near future the aforementioned temporary differences will be reversed and the taxable income will be available to deduct the negative temporary differences.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and is decreased as necessary, when it is no longer likely that future taxable income will be available to fully or partially capitalise the deferred income tax asset.

Deferred income tax assets and provisions for deferred income tax are measured with the use of such tax rates as are expected to be binding at the time of the capitalisation of such an asset or the release of such a provision, based on the tax rates (and tax laws) effective as at the balance sheet date or tax rates (and tax laws) that are to be certainly effective as at the balance sheet date.

Income tax on transactions recognised directly in equity is recognised in equity and not in profit or loss.

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

9.23.3. Value added tax

Revenues, costs, assets and liabilities are recognised less value added tax, except for the following:

- when the value added tax paid at the purchase of assets or services cannot be recovered from tax authorities; it is recognised respectively as part of the cost of such an asset or service;

- receivables and liabilities that are disclosed with the value added tax.

A net amount of the value added tax to be recovered from or paid to tax authorities is recognised in the balance sheet as part of receivables or liabilities.

9.24. Earnings per share

Earnings per share for each period are calculated by dividing a net profit allocated to shareholders in the Parent Company for a given period by the weighted average number of shares outstanding in the reporting period concerned. Diluted earnings per share for each period are calculated by dividing a net profit allocated to shareholders in the Parent Company for a given period by the total of the weighted average number of ordinary shares outstanding during the reporting period concerned and all the potential dilutive shares.

Shares are included in the weighted average number of shares starting from the day in which the payment for shares becomes due (which usually corresponds to their issue date). The ordinary shares issued as part of payment made under a business combination are taken into account when calculating the average weighted number of shares at the business combination date. Ordinary shares that can be issued if certain conditions are met (contingently issuable shares) are treated as outstanding during the period and included in the calculation of earnings per share only when the contingency has been met. Outstanding ordinary shares that are contingently returnable (i.e. are subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date they are no longer subject to recall.

9.25. Service concession arrangements

The Company entered into service concession arrangements in the framework of a public-private partnership involving the grantor (Litewski Urząd Drogowy) and the operator (UAB Palangos aplinkkelis which is a subsidiary of the Issuer). The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and other terms. The Group recognises and measures revenue in accordance with IAS 11 and IAS 18 for the services it performs. The Group accounts for service concession arrangements using the model specified in IFRIC 12. If the operator performs more than one service (i.e. construction, maintenance and modernisation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable. The Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor.

The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator:

- specified or determinable amounts or

- the shortfall, if any, between the amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

IAS 32, IAS 39 and IFRS 7 apply to the financial asset recognised. The amount due from or at the direction of the grantor is accounted for in accordance with IAS 39 as receivables, and interest calculated thereon using the effective interest method is recognised in profit or loss.

In accordance with IAS 23, costs of external funds attributable to the arrangement are recognised as an expense in the period in which they are incurred unless the operator has a contractual right to receive an intangible asset (a right to charge users of the public service).

10. Standards and amendments to standards issued by the IASB

In these consolidated financial statements, the Group resolved not to adopt early any standards or interpretations prior to their effective dates.

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

In the period covered by the financial statements for 2018, the following changes in accounting principles and principles for preparing the financial statements occurred:

• **IFRS 9 "Financial instruments" -** IFRS 9 "Financial instruments" introduces changes in the recognition and measurement of financial assets, principles of impairment of financial assets, as well as modifies the approach to hedge accounting.

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

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

Classification

IFRS 9 classifies financial assets to the following categories:

- measured at amortised cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss.

Recognition

The Group classifies financial assets into relevant category depending on the business model for financial assets management and on the characteristics of the contractual cash flows (SPPI test) for a given financial asset. The analysis of the terms of the other financial instruments did not identify the conditions leading to the failure of the SPPI test. With respect to the business model, all debt financial assets held by the Group are held to collect contractual cash flows.

Financial assets measured at amortised cost

The Group classifies trade and other receivables, deposits under bank guarantees, loans granted, financial assets under a concession agreement as well as cash and cash equivalents as assets measured at amortised cost.

Following the initial recognition, trade and other receivables are measured at amortised cost using the effective interest rate method, taking into account the expected credit loss, whereby trade and other receivables maturing within less than 12 months from the recognition date (i.e. without a financing component) are not discounted and are measured at their nominal value.

The Group uses simplified methods of measurement of financial assets and liabilities measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment of the amount receivable or settlement of the liability does not exceed 90 days.

Financial assets accounted at amortized cost, where the Group applies simplifications, are measured at initial recognition at the amount due, and subsequently, including at the end of the reporting period, at the amount of the payment due less the expected credit loss.

Financial assets measured at fair value through profit or loss

The Group does not hold any equity instruments.

The Group recognises derivative instruments not designated for hedge accounting purposes as assets measured at fair value through profit or loss.

Option to measure at fair value through profit or loss and option to measure at fair value through other comprehensive income

IFRS 9 allows for classification of instruments into the category of fair value through profit or loss regardless of whether or not the tests described above are met, if such classification eliminates or significantly reduces the accounting mismatch. The Group does not use this classification option.

IFRS 9 allows for classification of equity instruments as measured at fair value through other comprehensive income. Instruments classified in this category are measured at fair value and changes in fair value are recognised directly in other comprehensive income without any transfer to profit or loss at the moment of sale. The Group does not use this option.

Impairment

IFRS 9 introduces a new approach to estimating impairment losses for financial assets measured at amortised cost or at fair value through other comprehensive income (except for investments in capital assets). The impairment model is based on the calculation of expected losses, as opposed to the previously applied model (under IAS 39) based on the concept of incurred losses. Trade receivables are the most significant item of the Group's financial assets which is subject to new rules of calculation of expected credit losses.

The general model is used by the Group for financial assets measured at amortised cost - other than trade receivables.

In the general model, the Group monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.

Credit losses are defined as the difference between all contractual cash flows that are due to the entity and the cash flows that the entity expects to receive. This difference is discounted using the original effective interest rate.

The Group accounts for forward-looking information in the applied parameters of expected credit losses estimation model through the management adjustment of base ratios of probability of default. To calculate the expected credit loss, the Group determines the probability of default for receivables estimated on the basis of an analysis of the volume of outstanding invoices and the default rate estimated on the basis of the value of outstanding invoices.

In accordance with IFRS 9, for trade receivables measured at amortised cost, the Capital Group will apply a practical simplification, whereby the lifetime expected losses may be assessed on the basis of an "age table of past due receivables" based on historical data, applying the principles set forth in the standard for current and expected economic conditions.

(figures in PLN '000, unless stated otherwise)

As at each balance sheet date, the Group individually assesses the expected losses on recognised receivables and the probability of their occurrence for infrastructure entities. This assessment is made on the basis of the estimated outcome of negotiations in the case of disputes. Due to the fact that this group includes entities without bankruptcy capacity, the Group does not estimate the probability of default on contractual terms, but only the recoverable amount of receivables following the arrangements made with these entities regarding the final value of the work performed.

For other entities, the Group applied the model of group assessment of expected losses in line with the simplified approach defined in IFRS 9. Under this model, the Group estimates the allowance for lifetime credit losses on receivables from entities with similar credit risk characteristics. For the purpose of estimating the expected credit loss, the Group uses historical levels of credit losses depending on past due periods, adjusted by current expectations as to the development of these factors in the future. Therefore, as at 1 January 2018, impairment losses (net of deferred tax) decreased the Group's equity by PLN 2,751 thousand in correspondence with a decrease in the carrying amount of trade and other receivables. In the event of identifying specific reasons for a credit loss (in particular bankruptcy of the counterparty), the receivable is excluded from the analysis and included in the individual analysis (stage 3).

For other receivables and financial instruments held, the Company recognises an allowance for 12-month expected credit losses if the credit risk is low or has not increased significantly since initial recognition of receivables in the balance sheet and at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

The table below presents the effect of implementation of IFRS 9 on the change in the classification and measurement of the Group's financial assets as at 1 January 2018:

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

Equity instruments are recognised in accordance with IAS 27 at cost less impairment losses.

Financial liabilities are classified by the Group into the following categories:

- measured at amortised cost,
- measured at fair value through profit or loss,
- hedging financial instruments.

Following the entry into force of IFRS 9, there were no changes in the classification of financial liabilities held by the Group, and therefore it does not affect the Consolidated financial statements.

Liabilities, including trade liabilities, are measured initially at fair value and subsequently measured at amortised cost using the effective interest method.

The Group uses simplified methods of measurement of liabilities measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the settlement of the liability does not exceed 90 days.

Financial liabilities for which the Group applies simplifications are measured at initial recognition and subsequently, including at the end of the reporting period, at amount payable.

(figures in PLN '000, unless stated otherwise)

The category of financial hedging instruments includes financial assets and liabilities that are cash flow hedging and fair value hedging derivatives.

Hedge accounting

The Group applies hedge accounting in the Lithuanian part of the group, where hedging financial instruments are recognised in accordance with hedge accounting principles. In this case, IAS 39 is applied and the new model of hedge accounting provided for in IFRS 9 has not been implemented. IFRS 9 allows the continued application of IAS 39 for hedge accounting until a new standard on macro hedge is published.

Impact on the consolidated financial statements

The Group applied IFRS 9 retrospectively for the periods starting as of 1 January 2018 without restatement of comparative data. Differences resulting from the change in the measurement of financial assets as at the date of initial application of IFRS 9 were recognised in other reserve capitals, under profit or loss brought forward. The Group assessed the impact of the introduction of IFRS 9 on the accounting principles applied by the Group with reference to the Group's activities or results of its operations. The adoption of IFRS 9 had no impact on the Group's consolidated statement of financial position and consolidated equity, except for the effects of adopting IFRS 9 in the areas listed below.

Following the adoption of IFRS 9, as at 1 January 2018, as at 1 January 2018, equity was decreased by PLN 3,418 thousand in correspondence with a decrease in the carrying amount of relevant items. The amount was calculated on the basis of a new impairment model based on expected losses, which requires ongoing recognition of expected credit losses.

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

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

- **IFRS 15 "Revenue from contracts with customers"**

As of 1 January 2018, IFRS 15 is effective, having replaced IAS 11 "Construction Contracts" and IAS 18 "Revenue". In accordance with IFRS 15, an entity recognises revenue when it satisfies the performance obligation by transferring to the customer the goods or services promised (i.e. when the customer takes control of the goods or services). Revenue is recognised at the amount of the transaction price allocated to the performance obligation. The transaction price is the contractually agreed amount of consideration that the entity expects to obtain in exchange for the transfer of the goods and services promised in the contract.

IFRS 15 introduced a five-step revenue recognition model: 1. Identifying the contract with a customer 2. Identifying performance obligations 3. Determining the transaction price 4. Allocating the transaction price to each performance obligation 5. Recognising revenue when (or as) a contractual performance obligation is satisfied.

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

As a result, the Group adjusted its accounting policies and financial statements to the terminology consistent with IFRS 15. The tables below show the effect of the implementation of IFRS 15 on the amounts reported as at the date of implementation, i.e. 1 January 2018.

The Group implemented IFRS 15 Revenue from contracts with customers as of the initial application date, i.e. 1 January 2018. As a result, the accounting policy related to the recognition of assets and liabilities from contracts with customers was changed, as described in the summary of significant accounting policies.

As of 1 January 2018, the Group has been recording revenue from construction work in progress in accordance with the 5-step model and applies the input method. In the opinion of the Parent Company's Management Board, the input method is the most appropriate method for determining revenue from long-term contracts.

The Group applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application (i.e. 1 January 2018). Under the retrospective approach, no restatement of comparative figures is required and the figures presented for the period ended 31 December 2017 were prepared in accordance with IAS 18 and IAS 11. Details of material changes and relevant figures are presented below.

(figures in PLN '000, unless stated otherwise)

	31.12.2017	IFRS 15 influence	01.01.2018
ASSETS			
Non-current assets	**731 454**	**-**	**731 454**
Current assets	**710 826**	**-**	**710 826**
Inventory	94 027	-	94 027
Trade and other receivables	324 094	-	324 094
Income tax receivables	9 642	-	9 642
Other financial assets	14 859	-	14 859
Cash and cash equivalents	112 184	-	112 184
Prepayments	9 233	-	9 233
Construction contracts and advances paid towards contracts being performed	146 787	(146 787)	-
Assets from contracts with customers		146 787	146 787
TOTAL ASSETS	**1 442 280**	**-**	**1 442 280**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of Parent entity	**756 979**	**-**	**756 979**
Non-controlling interest	**5 055**	**-**	**5 055**
Total equity	**762 034**	**-**	**762 034**
Long-term liabilities	**116 953**	**-**	**116 953**
Short-term liabilities	**563 293**	**-**	**563 293**
Interest-bearing loans and borrowings	28 538	-	28 538
Trade and other liabilities	335 049	-	335 049
Provisions	14 179	12 465	26 644
Liabilities due to employee benefits	12 762	-	12 762
Derivative financial instruments	960	-	960
Accruals	416	-	416
Construction contracts and advances received towards	171 347	(171 347)	-
Advances received towards flats	42	(42)	-
Liabilities from contracts with customers		158 924	158 924
Total equity and liabilities	**1 442 280**	**-**	**1 442 280**

The tables below summarise the impact of the application of IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018. In order to ensure comparability of financial data presented in different periods, the Group presented below a reconciliation of data prepared in accordance with IFRS 15 with data which would have been prepared had IAS 11 and IAS 18 been in force in 2018.

(figures in PLN '000, unless stated otherwise)

Simplified balance sheet at as 31.12.2018 with data comply with IFRS 15 and data comply with IAS 11 and IAS 18 if it was in force in 2018	Data comply with IFRS 15	Adjustment	Balance without IFRS 15 influence
ASSETS			
Non-current assets	**720 882**	**-**	**720 882**
			-
Current assets	**822 054**	**-**	**822 054**
Inventory	86 854		86 854
Trade and other receivables	328 890		328 890
Income tax receivables	3 900		3 900
Other financial assets	13 773		13 773
Cash and cash equivalents	116 687		116 687
Prepayments	13 313		13 313
Construction contracts and advances paid towards contracts being performed	-	206 887	206 887
Contracts with customers assets	206 887	(206 887)	-
Assets held for sale	51 750		51 750
TOTAL ASSETS	**1 542 936**	**-**	**1 542 936**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of Parent entity	**645 539**	**-**	**645 539**
Non-controlling interest	**8 841**	**-**	**8 841**
Total equity	**654 380**	**-**	**654 380**
Long-term liabilities	**93 112**	**-**	**93 112**
Short-term liabilities	**795 444**	**-**	**795 444**
Interest-bearing loans and borrowings	132 559		132 559
Trade and other liabilities	407 341		407 341
Provisions	59 101	(48 748)	10 353
Liabilities due to employee benefits	16 572		16 572
Derivative financial instruments	-		-
Accruals	711		711
Construction contracts and advances received towards contracts	-	188 307	188 307
Advances received towards flats	-	1 699	1 699
Liabilities from contracts with customers	141 258	(141 258)	-
Liabilities of group to be classified as held for sale	37 902		37 902
Total equity and liabilities	**1 542 936**	**-**	**1 542 936**

(figures in PLN '000, unless stated otherwise)

Company's simplified statement of cash flows for the year 2018 with data comply with IFRS 15 and data comply with IAS 11 and IAS 18 if it was in force in 2018	Data comply with IFRS 15	Adjustment	Balance without IFRS 15 influence
Cash flows from operating activities			
Gross profit from continued operations	**(127 404)**		**(127 404)**
Adjustments for:	**92 689**	**-**	**92 689**
Depreciation	31 407		31 407
FX differences	450		450
Net interest and dividends	8 605		8 605
Profit on investment activities	(30 165)		(30 165)
Change in receivables	47 860		47 860
Change in inventory	4 630		4 630
Change in liabilities, excluding loans and borrowings	81 005		81 005
Change in prepayments and accruals	(5 094)	1 657	(3 437)
Change in provisions	33 304	(36 283)	(2 979)
Change in construction contracts and advances towards contracts being performed	-	(43 575)	(43 575)
Change in the state of settlements due to contracts	(78 201)	78 201	-
Change in financial derivatives	(270)		(270)
Income tax paid	(1 933)		(1 933)
Other	(420)		(420)
Foreign exchange differences on translation of foreign operations	1 511		1 511
Net cash flows from operating activities	**(34 715)**	**-**	**(34 715)**
Net cash flows from investment activities	**(31 699)**		**(31 699)**
Net cash flows from financial activities	**73 535**		**73 535**
Total net cash flows	**7 121**		**7 121**
Net FX differences	-		-
Cash at start of period	**112 172**		**112 172**
Assets held for sale - transfer	(2 618)		(2 618)
Cash at end of period	**116 675**		**116 675**

Effect of applying new accounting standards that will become effective on 1 January 2019

- **IFRS 16 "Leases"**

Selected accounting principles

IFRS 16 "Leases" was published on 13 January 2016 and endorsed by the European Union on 31 October 2017.

As of 1 January 2019, the Group will apply the new Standard in the recognition, measurement, and presentation of leases, as required by IFRSs. The application of the new Standard will be made in accordance with the transitional provisions contained in IFRS 16. Implementation of IFRS 16 within the Group will be carried out using the modified retrospective approach, and therefore, comparative data for 2018 will not be converted and any cumulative effect of the first application of the new standard will be included as an adjustment to the opening balance of retained earnings on the initial application date.

Definition of a lease

At present, the Group applies the definition of a lease set forth in IAS 17 and IFRIC 4. As of 1 January 2019, the Group will assess whether a contract is or contains a lease based on the definition of lease set forth in IFRS 16.

In accordance with IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the following:

a) the right to obtain substantially all of the economic benefits from use of the identified asset; and

b) the right to direct the use of the identified asset.

The Group applies the new guidelines on identification of leases only to contracts entered into (or changed) on or after the date of initial application, i.e. on or after 1 January 2019. Thereby, for all contracts concluded before 1 January 2019, the Group will apply the practical exemption provided for in IFRS 16, according to which the entity is not required to reassess whether the contract is a lease or contains a lease on the date of initial application. Instead, the Group will apply IFRS 16 only to contracts that were previously identified as leases applying IAS 17 Leases and IFRIC 4.

The Group as a lessee

In accordance with the currently applied IAS 17 Leases, the Group classifies leases as either finance or operating leases based on an assessment of whether substantially all the risks and rewards of ownership of the leased asset have been transferred to the Group as a lessee. In accordance with IFRS 16, the Group recognises in the statement of financial position the right-of-use asset and lease liability for all leases, except where IFRS 16 provides for exemptions concerning recognition.

For leases not terminated as at 1 January 2019, currently classified as operating leases, the Group recognises right-of-use assets and lease liabilities as follows:

- lease liabilities are measured at the present value of the lease payments remaining to be made, discounted at the marginal interest rate for the contract at the date of initial application,

- the right of use of the underlying assets for individual leases (separately for each lease) is measured at the amount of the lease liability. The Group used the practical expedient described in paragraph C10b of IFRS 16 in relation to such leases.

Using the modified retrospective implementation method for IFRS 16, the Group used the following practical expedients for lease contracts previously classified as operating leases in accordance with IAS 17 and therefore includes the following types of contracts as costs:

- lease agreements, the period of which ends up to 12 months from the date of the initial application of the Standard;

- lease agreements for which the underlying leased asset is of low value, i.e. not higher than USD 5 thousand for example: small items of equipment.

After the initial recognition, the Group measures the right-of-use asset similar to other non-financial non-current assets and the lease liability similar to financial liabilities. Consequently, following initial recognition, the Group separately recognises amortisation/depreciation of the right-of-use asset (except where right meets the definition of an investment property) and interest on lease liabilities.

In the case of the right-of-use assets classified as investment property measured at fair value, the Group grossed up the value of investment property, the measurement of which was increased by the value of the liability recognised on account of IFRS 16. The principles and frequency of remeasurement of investment property are described in Note 9.4.

The initial measurement of both assets and liabilities is significantly affected by the determination of the lease period. According to the definition of the lease period set out in IFRS 16, this period includes the non-cancellable period and periods resulting from the extension or termination options, if there is reasonable certainty that the Group will extend the contract or will not use the termination option.

In addition, the Group made other subjective assessments when making estimates and assumptions that affect the measurement of lease liabilities and right-of-use assets as regards:

- determination of incremental interest rates used in discounting future cash flows;

- indication of the useful lives of rights-of-use assets, recognised as at 1 January 2019;

- structure of fixed and variable payments in the contract.

Incremental interest rates were specified as the sum of:

a) the risk free rate, based on the Interest Rate Swap (IRS) in accordance with the maturity of the discount rate, and the relevant base rate for the given currency, as well as

b) the Group's credit risk premium based on the credit margin.

The Group uses compound interest to calculate monthly discounting of cash flows.

For leases that are active as at 1 January 2019 and have previously been classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability as at 1 January 2019 will be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

The weighted average incremental borrowing rate of the Group, as a lessee, applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 (for individual lease periods) was as follows:

Lease term in years	annual discount rate	monthly discount rate
from 1 to 3	3,55%	0,29%
from 3 to 5	3,92%	0,32%
from 5 to 10	4,55%	0,37%
over 10	4,97%	0,41%

The impact on the financial statements as at the date of initial application is as follows.

The Group has estimated the effect of IFRS 16 and concluded that as at 1 January 2019, the Group will recognise right-of-use assets equal to lease liabilities in the amount of PLN 14,896 thousand, which will not result in a difference in value to be recognised under retained earnings.

As a result of the above changes, in 2019 the Group's net cash flows from operating activities in the statement of cash flows will be higher by PLN 4,339 thousand and the net cash flows from financing activities will decrease by PLN 4,339 thousand.

The effect of the amendment on the financial statements is presented below:

Comparison of lease assets and liabilities according to IFRS 16 (PLN '000)

Before change IAS 17	After change from 01.01.2019 IFRS 16						
Third-party services for 12 months	Depreciation for 12 months	Interest for 12 months	Total	Assets used on the grounds of lease agreements	Liabilities under lease agreements		
					as at 01.01.2019		
					long-term	short-term	total
4 339	3 904	602	4 506	14 896	10 652	4 244	14 896

The Group is a party to various financing agreements. The entry of IFRS 16 into force will affect the calculation of covenants contained these agreements and may adversely affect debt-based ratios. The liquidity situation of the Parent Company is described in Note 64.

The main assets recognised as right-of-use assets include rights to perpetual usufruct of land, office premises and production premises.

Changes introduced independently by the Group

During 2018, the Group did not change the accounting policies and principles of preparation of the financial statements as compared to those disclosed in the Group's financial statements for 2017, published on 28 March 2018.

11. Selected financial data

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

Financial year ended	Average exchange rate in the period*	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
31.12.2018 r.	4,2669	4,1423	4,3978	4,3000
31.12.2017 r.	4,2447	4,1709	4,4157	4,1709

**) Average of the exchange rates effective for the last day of each month in the financial year.*

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

	31.12.2018		31.12.2017	
	kPLN	kEUR	kPLN	kEUR
Non-current assets	720 882	167 647	731 454	175 371
Current assets	822 054	191 175	710 826	170 425
TOTAL ASSETS	**1 542 936**	**358 822**	**1 442 280**	**345 796**
Equity	654 380	152 181	762 034	182 703
Long-term liabilities	93 112	21 654	116 953	28 040
Short-term liabilities	795 444	184 987	563 293	135 053
TOTAL EQUITY AND LIABILITIES	**1 542 936**	**358 822**	**1 442 280**	**345 796**

The data reported in the consolidated balance sheet was translated at the exchange rate quoted by the National Bank of Poland for the last day of the financial year.

Key items of the consolidated income statement translated into EUR:

	Year ended 31.12.2018		Year ended 31.12.2017	
	kPLN	kEUR	kPLN	kEUR
Sales revenues	1 560 648	365 757	1 374 291	323 766
Cost of goods sold	(1 644 890)	(385 500)	(1 280 956)	(301 777)
Gross profit (loss) on sales	**(84 242)**	**(19 743)**	**93 335**	**21 989**
Operating profit (loss)	(117 092)	(27 442)	38 118	8 980
Gross profit (loss)	**(127 404)**	**(29 859)**	**33 127**	**7 804**
Net profit (loss) from continued operations	(110 172)	(25 820)	32 043	7 549
Net profit (loss) from discontinued operations	-	-	-	-
Net profit for the period	**(110 172)**	**(25 820)**	**32 043**	**7 549**

The consolidated income statement data was converted at the average EUR exchange rate, calculated as the average of the exchange rates effective on the last day of each month in the financial year, quoted by the National Bank of Poland for that day.

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

	Year ended 31.12.2018		Year ended 31.12.2017	
	kPLN	kEUR	kPLN	kEUR
Cash flows from operating activities	(34 715)	(8 136)	56 881	13 400
Cash flows from investment activities	(31 699)	(7 429)	(38 395)	(9 045)
Cash flows from financial activities	73 535	17 234	(52 674)	(12 409)
Total net cash flows	**7 121**	**1 669**	**(34 188)**	**(8 054)**

The above data contained in the consolidated statement of cash flows was converted at the average EUR exchange rate, calculated as the average of the exchange rates effective on the last day of each month in the financial year, quoted by the National Bank of Poland for that day.

	31.12.2018		31.12.2017	
	kPLN	kEUR	kPLN	kEUR
Cash at start of period	112 172	26 894	146 360	33 083
Cash at end of period	**116 675**	**27 134**	**112 172**	**26 894**

Cash excluded from the statement of cash flows as at 31 December 2018 comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.

The above data contained in the consolidated statement of cash flows was converted at:

- the exchange rate quoted by the National Bank of Poland for the last day of the financial year – for "Cash at the end of the period",
- the exchange rate quoted by the National Bank of Poland for the last day of the financial year preceding the respective financial year – for "Cash at the beginning of the period".

The EUR/PLN exchange rate on the last day of the financial year ended 31 December 2016 was PLN 4.424.

12. Information on segments

Organisation and management of the Group's business are based on separate segments, corresponding to the types of products and services offered and markets served. Due to the relatively uniform nature of business activities of the Group companies, the following segments correspond to individual Group members.

As a consequence, the following reporting operating segments have been identified:

- Civil engineering – Poland – segment which performs civil engineering, construction and assembly works (Trakcja PRKiI, BTW, Torprojekt, PEUiM, Dalba and PDM Białystok);
- Construction, engineering and concession arrangements – Baltic States – segment which performs civil engineering, construction and assembly works in the road and rail sectors in Baltic States (AB Kauno Tiltai Group);
- Other – residential construction segment, which provides broadly defined real estate development services, including building construction works (PRK 7 Nieruchomości); this segment also includes operations of Ukrainian companies.

The Management Board monitors the respective segments' operating performance to make decisions on the allocation of resources, and evaluate the results of the allocation and the segments' operating performance. Profit or loss before tax is used as the key metric to evaluate results of the operations. Income tax is monitored at the Group level and is not allocated to the operating segments.

The principles applied to the operating segments in order to determine their financial performance, assets and liabilities, and to determine which of these elements are to be monitored at the Group's level remained unchanged in 2018.

Key customers:

In 2018 and in the comparable period, revenue from transactions with external customers accounted for 10% or more of the Group's total revenue. Total revenue by type of customers and by segment to which such revenues pertain are presented in the table below.

The total amount of revenue earned in 2018 from a single recipient (PLN thousand)	Segments presenting these revenues
604 732	Civil construction - Poland

The Management Board of the Parent Company refrained from presenting revenue from external customers by product and service due to the excessive cost of obtaining such information, which is in conformity with IFRS 8.

(figures in PLN '000, unless stated otherwise)

Operating segments

For the period from 1.01.2018 to 31.12.2018	Continued operations						
Badane	Civil Building Segment - Poland	Construction, Engineering and Concession Agreements Segment - Baltic countries	Other segments	Total	Discontinued operations	Exclusions	Total operations
Revenues							
Sales to external customers	1 122 298	368 553	69 797	1 560 648	-	-	1 560 648
Sales between segments	9 447	109	226	9 782	-	(9 782)	-
Total segment revenues	**1 131 745**	**368 662**	**70 023**	**1 570 430**	**-**	**(9 782)**	**1 560 648**
Results							
Depreciation	19 682	11 113	612	31 407	-	-	31 407
Financial revenues - interests	585	3 593	183	4 361	-	(210)	4 151
Financial expenses - interests	8 007	2 647	43	10 697	-	(210)	10 487
Gross profit	**(94 381)**	**(25 300)**	**1 552**	**(118 129)**	**-**	**(9 275)**	**(127 404)**

(figures in PLN '000, unless stated otherwise)

For the period from 1.01.2017 to 31.12.2017	**Continued operations**						
Audited	**Civil Building Segment - Poland**	**Construction, Engineering and Concession Agreements Segment - Baltic countries**	**Other segments**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Revenues							
Sales to external customers	936 087	426 666	11 538	1 374 291	-	-	1 374 291
Sales between segments	1 404	-	136	1 540	-	(1 540)	-
Total segment revenues	**937 491**	**426 666**	**11 674**	**1 375 831**	**-**	**(1 540)**	**1 374 291**
Results							
Depreciation	18 723	10 192	36	28 951	-	-	28 951
Financial revenues - interests	2 217	3 572	38	5 827	-	(28)	5 799
Financial expenses - interests	4 003	2 674	34	6 711	-	(28)	6 683
Gross profit	**37 463**	**14 462**	**345**	**52 270**	**-**	**(19 143)**	**33 127**

(figures in PLN '000, unless stated otherwise)

As at 31.12.2018 *Audited*	**Continued operations**						
	Civil Building Segment - Poland	**Construction, Engineering and Concession Agreements Segment - Baltic countries**	**Other segments**	**Total**	**Discontinued operations**	**Exclusions**	**Total operations**
Segment assets	**1 100 925**	**617 070**	**57 751**	**1 775 746**	**-**	**(261 226)**	**1 514 520**
Assets not allocated to segments							28 416
Total assests							**1 542 936**
Segment liabilities*	**686 440**	**198 216**	**10 040**	**894 696**	**-**	**(99 252)**	**795 444**
Other disclosures:							
Capital expenditures	(20 289)	(8 931)	(4 010)	(33 230)	-	955	(32 275)
Impairment of non-financial assets	(444)	(24 243)	-	(24 687)	-	-	(24 687)

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

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

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

(figures in PLN '000, unless stated otherwise)

Geographical segments

For the period from 1.01.2018 to 31.12.2018	Continued operations					
Audited	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Revenues						
Sales to external customers	1 147 072	413 576	1 560 648	-	-	1 560 648
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	1 344	99	1 443	-	(1 443)	-
Total segment revenues	**1 148 416**	**413 675**	**1 562 091**	**-**	**(1 443)**	**1 560 648**

For the period from 1.01.2017 to 31.12.2017	Continued operations					
Audited	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Revenues						
Sales to external customers	949 021	425 270	1 374 291	-	-	1 374 291
Sales between segments	-	-	-	-	-	-
Sales domestic/ abroad	-	-	-	-	-	-
Total segment revenues	**949 021**	**425 270**	**1 374 291**	**-**	**-**	**1 374 291**

As at 31.12.2018	Continued operations					
Audited	Domestic	Abroad	Total	Discontinued operations	Exclusions	Total operations
Operating assets	1 142 103	633 643	1 775 746	-	(261 226)	1 514 520
Segment liabilities*	712 148	182 548	894 696	-	(99 252)	795 444

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

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

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

(figures in PLN '000, unless stated otherwise)

13. Revenue from contracts with customers

In accordance with IFRS 15.114, the Group presents recognised revenue from contracts with customers by the following categories:

- main types of products and/or services;
- geographic region;
- customer type;
- duration of the contract.

Main types of products and services	Year ended 31.12.2018 Audited	Year ended 31.12.2017 Audited
Revenues from sale of construction services	1 450 185	1 265 932
Revenues from sale of goods and materials	40 529	17 696
Revenues from sale of other products and services	5 874	7 177
Deliveries of products (switchgears, supporting structures, etc.)	23 880	15 045
Deliveries of goods and materials	22 717	51 984
real estate development activities	11 839	11 674
Others	5 624	4 784
Total	**1 560 648**	**1 374 291**

	Year ended 31.12.2018 Audited	Year ended 31.12.2017 Audited
Domestic	1 118 687	945 998
Abroad	441 961	428 293
Total	**1 560 648**	**1 374 291**

A breakdown of sales of construction services is presented below. Other revenue from contracts with customers relate to sales of goods and materials as well as other products and services and amounted to PLN 62,790 thousand in 2018 (2017: PLN 86,188 thousand)

Allocation sales of construction services revenue by country	Year ended 31.12.2018 Audited	Year ended 31.12.2017 Audited
Poland	1 103 701	914 500
Lithuania	303 507	310 322
Sweden	10 175	58 637
Latvia	22 580	4 644
Hungary	3 678	-
Germany	1 359	-
Ukraine	52 858	-
Total	**1 497 858**	**1 288 103**

Allocation sales of construction services revenue by customers	Year ended 31.12.2018 Audited	Year ended 31.12.2017 Audited
General government	1 403 591	1 100 753
Private Sector	94 267	187 350
Total	**1 497 858**	**1 288 103**

(figures in PLN '000, unless stated otherwise)

	Year ended	
Allocation sales of construction services revenue by time of lead time	**31.12.2018 Audited**	**31.12.2017 Audited**
Contracts to 12 months	1 144 838	701 299
Contracts over 12 months	353 020	586 804
Total	**1 497 858**	**1 288 103**

Revenue from PKP PLK S.A. account directly for approx. 39% of consolidated sales revenue, and revenue from the Lithuanian Road Administration and the General Directorate for National Roads and Motorways – for approx. 8%.

The Group's revenue is recognised in three operating segments which, at the same time, are the reporting segments.

The above amounts concerning the breakdown of sales into domestic and export differ from the amounts disclosed in the note "Segment information" due to elimination of inter-segment sales described in Note 12.

14. Operating expenses

Expenses by type:

	Year ended	
	31.12.2018 Audited	**31.12.2017 Audited**
Depreciation	31 407	28 951
Consumption of materials and energy	559 956	524 779
External services	798 715	576 554
Taxes and charges	6 676	6 360
Payroll	190 818	162 402
Social security and other benefits	49 399	46 893
Other types of costs	28 520	16 754
Total costs by type	**1 665 491**	**1 362 693**
Change in inventories, products and prepayments	50 198	(57 702)
Cost of manufacture of products for the entity's own needs (negative value)	(28 877)	(16 860)
Cost of sales, marketing and distribution (negative value)	(5 936)	(5 430)
General and administrative costs (negative value)	(58 329)	(50 991)
Manufacturing cost of products sold	**1 622 547**	**1 231 710**
Value of materials and goods sold	**22 343**	**49 246**
Cost of goods sold	**1 644 890**	**1 280 956**

(figures in PLN '000, unless stated otherwise)

Employee benefits expense:

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
Costs of payroll and employment termination benefits	177 283	154 531
Social security costs	42 654	40 441
Provisions for retirement pay and disability benefits	291	(870)
Provision for jubilee awards	440	(2 423)
Provision for unused leaves	7 298	7 839
Provision for bonuses	5 506	3 100
Provision due to competition clause and compensation	-	225
Employee benefits under Employee Pension Program	807	623
Other employee benefits	5 938	5 829
Total	**240 217**	**209 295**

The Parent Company has launched the Occupational Pension Scheme (Pracowniczy Program Emerytalny or PPE) which is entered in the register kept by KNUiFE [supervisory authority] under no. RPPE 75/01. In 2001 the Parent Company (then PKRE S.A.) concluded an agreement for the payment of employee contributions and a corporate pension agreement with the Trade Unions that operated in the Company. All the employee pension agreements and annexes thereto were concluded using a uniform format. In 2006 an annex was signed to the corporate pension agreement, which aligned the provisions of PPE with the provisions of the amended Act on the Occupational Pension Schemes.

Under the scheme, the employer transfers 4% of the employee's gross remuneration which forms a basis for calculating pension contributions to the selected fund. The scheme is voluntary, and employees willing to join it must have at least 3 months of service at the Parent Company.

Depreciation of fixed assets, amortisation of intangible assets and impairment losses recognised in profit or loss:

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
Items recognised in cost of goods sold		
Depreciation of fixed assets	27 751	25 319
Amortisation of intangible assets	962	978
Total	**28 713**	**26 297**
Items recognised in cost of sales, marketing and distribution		
Depreciation of fixed assets	108	1
Amortisation of intangible assets	-	-
Total	**108**	**1**
Items recognised in general and administrative costs		
Depreciation of fixed assets	1 475	1 389
Amortisation of intangible assets	1 111	1 264
Total	**2 586**	**2 653**
Depreciation of fixed assets	29 334	26 709
Amortisation of intangible assets	2 073	2 242
Total	**31 407**	**28 951**

(figures in PLN '000, unless stated otherwise)

15. Other operating revenue:

	Year ended	
	31.12.2018 Audited	**31.12.2017 Audited**
Reversal of provision including:	-	2 186
- for restructuring	-	1 831
- for costs	-	105
- for claims and litigations	-	250
Received penalties and fines	168	713
Investment property valuation	346	-
Costs reinvoice	119	-
Reimbursed costs of litigious proceedings	5	-
Surplus of stocktaking	23	-
Redeemed liabilities	2 760	166
Profit on sale of non-financial non-current assets	51 072	1 059
Profit from investment property rent	159	175
Other	3 463	573
Total	**58 115**	**4 872**

On 27 December 2018, the Parent Company signed a sale agreement based on which Trakcja PRKiI sold to Grupa Lotnicza 100 Spółka z ograniczoną odpowiedzialnością with its registered office in Wrocław: right of perpetual of a real property situated at ul. Lotnicza 100 with its registered office in Wrocław constituting a plot of land No 3/5 with an area of 13.1540 ha, a plot of land No 3/4 with an area of 0.2546 ha, including the ownership of the buildings and installations located on plot of land No 3/5 constituting a separate real estate, for which the District Court for Wrocław–Krzyki in Wrocław, 4th Land and Mortgage Register Department keeps the land and mortgage register number WR1K/00103043/5, as announced in current report No 26/2018 of 27 December 2018. The agreement provides for specific administrative steps to be taken by the Company before the final payment of the price – for this reason, the deadline for payment was set by the parties for 15 September 2019. The Parent Company analysed the agreement in the light of the revenue recognition criteria laid down in the new IFRS 15. In the opinion of the Parent Company, the deferred payment date and the obligation to complete certain administrative steps do not result in deferring the recognition of revenue to subsequent years. In the view of the Parent Company (as well as of its external experts who carried out a legal analysis of certain conditions), there were grounds for recognising revenue based on the following criteria:

- on 27 December 2018, the title to the land was transferred to the buyer (which was confirmed by an entry in the relevant land and mortgage register);

- as at the date of signing the agreement, the company held an enforceable right to receive the consideration specified in the agreement;

- together with the transfer of ownership, the buyer derives rewards and bears the risks associated with the property received;

- the real estate was physically handed over to the buyer in 2018.

(figures in PLN '000, unless stated otherwise)

16. Other operating expenses

	Year ended	
	31.12.2018 Audited	**31.12.2017 Audited**
Established provisions for liabilities	178	60
- other	178	60
Restructuring costs	-	112
Damage of tangible non-current assets	-	523
Investment property valuation	-	863
Litigation costs paid	296	510
Donations made	175	311
Investment shortages of inventories	114	299
Value of liquidated non-financial assets	110	80
Receivables revaluation write-offs	-	293
Written-off receivables	251	69
Other	1 333	548
Total	**2 457**	**3 668**

17. Finance income

	Year ended	
	31.12.2018 Audited	**31.12.2017 Audited**
Financial revenues from interest, including:	4 151	5 799
- bank interest	219	244
- interest on receivables	341	1 026
- interest on released provisions for interest on liabilities	-	914
- of financial asset under the concession agreement	3 368	3 455
- other	223	160
Foreign exchante rate gain	(0)	-
Other financial revenues	2	89
Total	**4 153**	**5 888**

(figures in PLN '000, unless stated otherwise)

18. Finance costs

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
Financial costs on account of interest, including:	10 487	6 683
- interest on loans and borrowings	6 539	3 706
- on liabilities	1 499	502
- on leasing	2 111	1 768
- on liability from employee benefits	176	253
- other	162	454
Loss from exchange rate differences	1 233	182
Factoring related costs	21	213
Write-downs of receivables' interest	-	912
Financial commision paid	2 097	2 500
Other financial costs	627	389
Total	**14 465**	**10 879**

(figures in PLN '000, unless stated otherwise)

19. Income tax

19.1. Current income tax

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
Gross profit	**(127 404)**	**33 127**
Differences between gross profit (loss) and income tax base (by title)		
- temporary differences, including:	**64 095**	**(69 234)**
depreciation and amortisation	6 599	(7 990)
revaluation write-offs	5 752	586
change in provisions	(5 816)	(27 435)
valuation of foreign exchange transactions	(129)	35
valuation of construction contracts	(50 732)	(88 896)
accrued interest	1 968	(2 074)
accrued FX differences	581	(1 056)
provision for losses on contracts	36 508	(1 740)
remuneration unpaid	671	(135)
investment property fair value adjustment	(168)	(863)
non-tax costs concerning performed contracts	68 880	59 011
non-tax revenues concerning performed contracts	11 495	10 716
other	(11 514)	(9 391)
- permanent differences, including:	**24 085**	**(26 455)**
contributions to PFRON (National Disabled Persons Rehabilitation Fund)	1 667	1 303
donations made	178	312
budget interest	348	315
insurance and membership fees	315	328
provision for losses on contracts	-	(32 335)
VAT difference	188	27
revaluation write-offs	(6 559)	2 818
other	27 948	777
Income (loss)	**(39 224)**	**(62 562)**
Taxable income	**10 922**	**8 996**
Deductions from income	**(5 096)**	**(7 115)**
- tax loss from previous years	(5 095)	(7 115)
- donations	(1)	-
Income tax base	**5 826**	**1 881**
Income tax	**1 062**	**315**
Current income tax recognised (shown) in tax declaration for the period, including:	**1 062**	**315**
- recognised in income statement	1 062	315

(figures in PLN '000, unless stated otherwise)

Income tax in the income statement:

	Year ended	
	31.12.2018 Audited	**31.12.2017 Audited**
Current income tax:	**692**	**361**
- current income tax charge	1 062	315
- adjustments related to current income tax from previous years	(370)	45
Deferred tax:	**(17 924)**	**724**
- related to increase and decrease in temporary differences	(17 924)	724
Total	**(17 232)**	**1 084**

A portion of income tax was determined at the rate of 19% of the corporate income tax base for entities operating in Poland. For the foreign companies of Trakcja Group, the tax rate between 1 January 2018 and the end of 2018 was 15% in Lithuania, 22% in Sweden, 18% in Belarus, 18% in Ukraine and 10% in Bulgaria.

Reconciliation of effective tax rate:

Reconciliation of corporate income tax on profit (loss) before tax computed at the statutory rate with corporate income tax computed at the Group's effective tax rate for the years ended 31 December 2018 and 31 December 2018 is presented in the following table:

	Year ended	
	31.12.2018 Audited	**31.12.2017 Audited**
Gross profit (loss)	**(127 404)**	**33 127**
Income tax at applicable income tax rate of 19%	(24 207)	6 294
Tax effect of the approach:		
Use of tax losses from previous years	(154)	(877)
Revaluation of deferred tax assets	141	(37)
Effect of varied interest rate within the Group	208	(323)
Tax-free income and other income deductions	2 787	-
Tax revenues not constituting accounting revenues	3 264	4 113
Tax costs not constituting accounting costs	(3 790)	(3 247)
Non-tax revenues constituting accounting revenues	(3 736)	(11 775)
Non-tax costs constituting accounting costs	8 255	6 936
Income tax expense at the effective tax rate -16% (2017: 3%)	**(17 232)**	**1 084**

(figures in PLN '000, unless stated otherwise)

19.2. Income tax recognised in other comprehensive income

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
Actuarial gains (losses)		
Gross amount	(326)	(689)
Tax	54	108
Net amount	**(272)**	**(581)**
Cash flow hedging instruments		
Gross amount	260	1 313
Tax	(39)	(197)
Net amount	**221**	**1 116**
Foreign exchange differences on translation of foreign operations		
Gross amount	8 657	(19 952)
Tax	-	-
Net amount	**8 657**	**(19 952)**

The Group does not compute deferred tax on foreign exchange differences arising from translation of foreign subsidiaries in accordance with IAS 12, as it controls the timing of reversal of temporary differences and these differences will not reverse in the foreseeable future. The value of unrecognised deferred tax liabilities (whose recognition would be included in the Group's equity) amounted to PLN 3,010 thousand as at 31 December 2018.

19.3. Deferred income tax

The table below presents the impact of deferred tax assets and liabilities on profit or loss and equity:

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
Deferred tax asset	**88 821**	**61 438**
- through profit or loss	88 701	60 531
- through equity	120	907
Provision for deferred tax	**69 263**	**59 411**
- through profit or loss	64 964	54 600
- through equity	4 299	4 811

The table below presents the final periods in which deferred income tax assets on tax loss may be settled in accordance with the Corporate Income Tax Act:

As at 31.12.2018	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
Defered tax assets concerning tax loss	6 278	9 282	2 267	832	161	**18 820**

As at 31.12.2017	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Defered tax assets concerning tax loss	4 296	4 491	3 653	1 438	200	**14 078**

As at 31 December 2018, the Group did not recognise a deferred tax asset on tax loss of PLN 6,833 thousand (31 December 2017: PLN 4,415 thousand), as it is not probable that future taxable profit will be available against which the unused losses and unused tax credits can be utilised.

(figures in PLN '000, unless stated otherwise)

In accordance with the Corporate Income Tax Act, unrealised or written off assets on account of unused tax losses may be settled in the following periods:

As at 31.12.2018	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
The amount of not established/written down asset due to tax losses	2 935	2 904	984	9	1	**6 833**

As at 31.12.2017	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
The amount of not established/written down asset due to tax losses	334	1 985	2 010	85	1	**4 415**

(figures in PLN '000, unless stated otherwise)

Deferred tax assets Title of temporary differences	**1.01.2017 Audited**	**Increase / Decrease**	**31.12.2017 Audited**	**Increase / Decrease**	**31.12.2018 Audited**
Provision for bonuses	2 202	(294)	1 908	(1 037)	871
Provision for the audit	41	(1)	40	5	45
Provision for correction works	7 200	(4 353)	2 847	(502)	2 345
Provision for losses on contracts	877	(126)	751	7 925	8 676
Provisions for retirement and pensions	1 033	(237)	796	(87)	709
Provision for jubilee awards	1 227	(717)	510	(70)	440
Provision for unused leaves	1 769	213	1 982	586	2 568
Valuation allowance for trade receivables	1 047	(415)	632	1 717	2 349
Valuation allowance for other current assets	149	(1)	148	(32)	116
Unrealized foreign exchange losses	232	(146)	86	(79)	7
Accrued interest on liabilities	267	(259)	8	272	280
Interest on receivable write-offs	49	186	235	(127)	108
Non-tax costs related to ongoing long-term contracts	22 870	11 358	34 228	10 717	44 945
Surpus of invoiced revenues over actual revenues - valuation of long-term contracts	4 113	(2 676)	1 437	2 346	3 783
The positive difference between the balance sheet depreciation and the tax depreciat	85	(11)	74	(26)	48
Tax loss	2 537	11 541	14 078	4 742	18 820
Revaluation of fixed assets to fair value	289	(289)	-	-	-
Unpaid wages and unpaid social security contributions	361	16	377	145	522
Other	4 632	(2 694)	1 938	(21)	1 917
Foreign exchange differences	288	(926)	(638)	910	272
Total before compensation	**51 267**	**10 171**	**61 437**	**27 384**	**88 821**
Deferred tax assets with deferred tax reserve compensation	(40 560)	(11 041)	(51 601)	(8 804)	(60 405)
Total after compensation	**10 707**	**(871)**	**9 836**	**18 580**	**28 416**

(figures in PLN '000, unless stated otherwise)

Deferred tax liability Title of temporary differences	1.01.2017 Audited	Increase / Decrease	31.12.2017 Audited	Increase / Decrease	31.12.2018 Audited
Surplus of actual revenues over invoiced revenues - valuation of long-term contracts	3 392	13 586	16 978	11 892	28 870
Non-tax revenue relating to long-term contracts	16 385	(2 036)	14 349	(2 184)	12 165
The negative difference between the balance sheet depreciation and the tax depreciation	18 339	1 967	20 306	(2 258)	18 048
Unrealized foreign exchange profits	16	30	46	1	47
Interest accrued on deposits, on financial assets	123	135	258	(102)	156
The right to perpetual usufruct	744	(10)	734	(367)	367
Revaluation of fixed assets to fair value	4 044	(689)	3 355	(1 204)	2 151
Investment property fair value adjustment	2 081	(164)	1 917	(32)	1 885
Other	3 115	(981)	2 134	3 070	5 204
Foreign exchange differences	387	(1 053)	(666)	1 036	370
Total before compensation	**48 628**	**10 783**	**59 411**	**9 852**	**69 263**
Deferred tax assets with deferred tax reserve compensation	(40 560)	(11 041)	(51 601)	(8 804)	(60 405)
Total after compensation	**8 068**	**(258)**	**7 810**	**1 048**	**8 858**

The Group decided not to present movements in the period broken down into portions recognised in profit or loss and in equity due to minor significance of movements affecting the revaluation reserve.

(figures in PLN '000, unless stated otherwise)

20. Discontinued operations

No operations were discontinued in 2018 or 2017.

21. Earnings (loss) per share:

For each period, earnings per share are computed as the quotient of the net profit attributable to shareholders of the Parent Company for the period and the weighted average number of shares in the period. Diluted earnings per share for a reporting period are calculated by dividing net profit attributable to shareholders of the of the Parent Company for the period by the sum of the weighted average number of shares outstanding in the reporting period and all potential dilutive shares.

Earnings (loss) per share:

	Year ended 31.12.2018 Audited	Year ended 31.12.2017 Audited
Net profit (loss) from continued operations	(110 172)	32 043
Net profit applied to calculate diluted earnings per share	(110 172)	32 043
Net profit attributable to shareholders of Parent entity applied to calculate diluted earnings per share	(111 006)	31 429
Number of issued shares (pcs)	**51 399 548**	**51 399 548**
Weighted average number of issued ordinary shares applied to calculate basic earnings per share (pcs)	51 399 548	51 399 548
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings per share	51 399 548	51 399 548

Earnings (loss) per share attributable to shareholders during the period (in PLN per share):

	Year ended 31.12.2018 Audited	Year ended 31.12.2017 Audited
- basic	(2,14)	0,62
- diluted	(2,14)	0,62

Earnings (loss) per share from continuing operations attributable to shareholders during the period (in PLN per share):

	Year ended 31.12.2018 Audited	Year ended 31.12.2017 Audited
- basic	(2,14)	0,62
- diluted	(2,14)	0,62

Earnings (loss) per share attributable to shareholders of the Parent Company during the period (in PLN per share):

	Year ended 31.12.2018 Audited	Year ended 31.12.2017 Audited
- basic	(2,16)	0,61
- diluted	(2,16)	0,61

(figures in PLN '000, unless stated otherwise)

22. Property, plant and equipment

Structure of fixed assets:

	31.12.2018 Audited	31.12.2017 Audited
Fixed assets, including:	265 685	249 165
- land (including right of perpetual usufruct)	20 396	22 541
- buildings, premises, civil and water engineering structures	16 117	17 378
- technical equipment and machines	131 607	126 130
- vehicles	85 714	70 770
- other fixed assets	11 851	12 346
Fixed assets under construction	31 600	17 688
Total	**297 285**	**266 853**

Movements in fixed assets:

Financial year ended 31.12.2018 Audited	**Land, buildings and structures**	**Machines and equipment**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Total**
Net book value at the beginning of the year	**39 919**	**126 130**	**70 770**	**12 346**	**17 688**	**266 853**
Increases - purchase	369	16 421	25 073	2 861	15 944	60 668
Start of subsidiary consolidation	-	102	33	1	1 614	1 750
Movements between categories	1 811	1 556	439	-	(3 806)	-
Sale	(2 754)	(125)	(570)	(2)	-	(3 451)
Liquidation	-	(97)	(767)	(11)	-	(875)
Depreciation	(2 379)	(13 594)	(9 741)	(3 618)	-	(29 332)
Assets held for sale - transfer	(763)	-	-	-	-	(763)
Other decreases	(19)	-	-	-	-	(19)
Variances due to currency translation	329	1 214	477	274	160	2 454
Net book value at the end of the year	**36 513**	**131 607**	**85 714**	**11 851**	**31 600**	**297 285**

As at 31.12.2018 Audited						
(Gross) cost or value from valuation	70 878	280 141	174 066	43 026	31 657	599 768
Depreciation and impairment write-offs	(34 694)	(149 748)	(88 829)	(31 449)	(217)	(304 937)
Variances due to currency translation	329	1 214	477	274	160	2 454
Net book value	**36 513**	**131 607**	**85 714**	**11 851**	**31 600**	**297 285**

In 2018, the Parent Company signed an agreement transferring the ownership right to the gravel cleaning machine and 6 conveyors to mLeasing Sp. z o.o., and subsequently entered them into the records under leaseback contracts. From the formal point of view, the above fixed assets were sold and re-purchased (under a lease contract), but from the IFRS point of view, the sale and re-purchase transactions should be treated together as contracting an asset-backed loan, as under SIC-27 the transaction was an asset-backed loan, under which the company obtained funds in the net amount of PLN 17,061 thousand. As a result, the above movements with respect to the acquisition and sale of property, plant and equipment do not include the value of the fixed assets covered by the above contracts.

(figures in PLN '000, unless stated otherwise)

Financial year ended 31.12.2017 Audited	Land, buildings and structures	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Net book value at the beginning of the year	**40 294**	**110 082**	**68 158**	**12 827**	**16 128**	**247 489**
Increases - purchase	1 165	30 285	11 855	3 681	11 464	58 450
Movements between categories	1 278	1 998	(31)	-	(3 245)	-
Sale	-	(812)	(288)	-	(5 635)	(6 735)
Liquidation	-	(69)	(52)	(5)	-	(126)
Depreciation	(2 209)	(13 015)	(7 951)	(3 534)	-	(26 709)
Other decreases	-	(450)	(37)	-	(992)	(1 479)
Variances due to currency translation	(609)	(1 889)	(884)	(623)	(32)	(4 037)
Net book value at the end of the year	**39 919**	**126 130**	**70 770**	**12 346**	**17 688**	**266 853**

As at 31.12.2017 Audited						
(Gross) cost or value from valuation	76 001	272 598	154 270	42 415	17 949	563 233
Depreciation and impairment write-offs	(35 473)	(144 579)	(82 616)	(29 446)	(229)	(292 343)
Variances due to currency translation	(609)	(1 889)	(884)	(623)	(32)	(4 037)
Net book value	**39 919**	**126 130**	**70 770**	**12 346**	**17 688**	**266 853**

Ownership structure of fixed assets:

Ownership structure of fixed assets:	31.12.2018 Audited	31.12.2017 Audited
Proprietary	192 241	209 272
Used on the basis of lease, rental or other agreement, including leasing agreement	105 044	57 582
Total	**297 285**	**266 853**

As lessee, Trakcja Group uses the following items of property, plant and equipment under a finance lease contract:

As at 31.12.2018 Audited	Land, buildings and structures	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Value at the beginning of the period	-	56 449	65 886	133	-	**122 468**
Acumulated depreciation	-	(7 938)	(9 428)	(58)	-	**(17 424)**
Net book value	**-**	**48 511**	**56 458**	**75**	**-**	**105 044**

As at 31.12.2017 Audited	Land, buildings and structures	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Value at the beginning of the period	-	39 216	32 518	133	202	**72 069**
Acumulated depreciation	-	(7 511)	(6 961)	(15)	-	**(14 487)**
Net book value	**-**	**31 705**	**25 557**	**118**	**202**	**57 582**

Under the perpetual usufruct right, the Group holds land classified as Land, buildings and structures with a net value of PLN 18,963 thousand (31 December 2017: PLN 24,284 thousand).

Information on property, plant and equipment pledged as collateral is presented in Note 55.

(figures in PLN '000, unless stated otherwise)

23. Investment property

The table below presents changes in investment properties during the year:

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
As at start of period (by type groups):	**20 097**	**21 226**
- land	17 600	18 729
- buildings, premises, civil and water engineering structures	2 497	2 497
Increases:	**680**	**21**
- land	551	21
- revaluation	549	21
- exchange rate differences	2	-
- buildings, premises, civil and water engineering structures	129	-
- revaluation	129	-
Decreases	**(332)**	**(1 150)**
- land	(332)	(1 150)
- revaluation	(332)	(884)
- disposal	-	(252)
- exchange rate differences	-	(14)
As at end of period (by type groups):	**20 445**	**20 097**
- land	17 819	17 600
- buildings, premises, civil and water engineering structures	2 626	2 497

The Group recognises investment properties at fair value. Fair value of the Group's investment properties as at December 31, 2018 and December 31, 2017 was estimated based on the valuation carried out as at those days by an independent expert with suitable professional qualifications in evaluating properties and with up-to-date experience in evaluating properties at the locations similar to those of the Group's assets. The Group also verifies the obtained opinions on fair value by analysing the data derived from the active market (market prices) of similar investment properties with similar location and in similar condition. Such analyses are carried out by persons who have knowledge of the market.

The Group's buildings classified as investment properties are measured applying the cost method. In accordance with IFRS 13, the cost method reflects the amount that would be necessary at a given moment in order to recreate the rate of return on a given asset (often called the current replacement cost). In many situations, the current replacement cost method is used for establishing fair value of mineral assets that are used in combination with other assets or with other assets and liabilities. The properties measured fall into the category of the regional market, and their construction elements are measured using the cost-based approach, the cost replacement method and the analysis ratios and integrated elements.

Fair value of land that forms part of the investment properties is measured through the reference to the market transaction prices for similar properties (comparable method). Comparative approach involves the measurement of the property based on the assumption that its value should be equal to the price for similar properties traded on the market, adjusted considering characteristics that differ such properties (i.e. location, development or surface) and determined taking into account changes in prices in time. Sensitivity analysis demonstrates that the comparable method is sensitive to changes in the prices of similar properties selected for evaluation.

(figures in PLN '000, unless stated otherwise)

The „Złoże kruszywa naturalnego Nowowola" property owned by PEUiM Sp. z o.o. was measured using the income method and the discounted income flow approach. This approach is based on the expected cash flows, unadjusted for risk, and the adjusted discount rate which takes into account a risk premium required by the participants in the market. The rate was calculated using the CAPM model and adopted at 11.48%. The valuation was based on the 10-year projections of income on the property. The value of income on the property was determined by the analysis of the local market data and the details regarding the deposit resources. The residual value of land after the completion of deposit production was determined on the basis of the analysis of average transaction prices for low-graded agricultural land in the Podlaskie Province. The income method is sensitive to the discount rate and the expected income flows from the property.

Sensitivity analysis shows that the market valuation model is sensitive mainly to the prices of similar properties selected for evaluation, and the cost model is sensitive to the replacement cost and the adopted degree of wear and tear.

Fair value is determined using techniques and methods which are appropriate considering the circumstances and for which sufficient data is available, with the maximum use of the relevant observable inputs and the minimum use of the unobservable inputs.

An effect of unobservable inputs on fair value of properties, depending on the measurement method adopted, is presented below.

	Valuation technique used	**Unobservable input data**	**Link between unobservable input data and fair value**
Office - land	Comparative approach	Location (20%) Accessibility (20%) Function in development plan/study (20%) Development state, size and shape of the plot (20%) Location, accessibility (10%) Ownership form (10%)	these factors affect the value of the weighting adopted in measuring the fair value of real estate
		Average market price of comparable real estate	an increase in the market value of comparable real estate will increase the fair value of real estate
Office and warehouse properties	Cost approach	Replacement cost value	increase in the replacement cost will increase the fair value of real estate
		Requisite degree of technical wear 50%-85%	higher the degree of technical wear adversely affect the fair value of the property
Land properties	Comparative approach	Location (35%) Accessibility (20%) Development state (25%) Size and shape of the plot (20%)	these factors affect the value of the weighting adopted in measuring the fair value of real estate
		Average market price of comparable real estate	Average market price of comparable real estate
Deposits of natural aggregates	Income approach	Discount rate 8,76%	an increase in the discount rate would decrease the fair value of the property
		Wealth deposits 1 882,83 ths. tonnes	the expected size of the deposit growth will increase in the fair value of real estate
		Average sales price of aggregate 16,00 PLN/Mg	increase in the average sales price of aggregate will increase the fair value of the property

(figures in PLN '000, unless stated otherwise)

In 2018 the measurement method remained unchanged.

Investment properties were measured by an independent expert based on the market data as at December 31, 2018.

Fair value of the properties was estimated applying the most beneficial and the most advantageous use of the properties (the current use of such properties).

The measurement of investment properties as at December 31, 2018 demonstrated a decrease in their value in the amount of PLN 348 thousand which was recognised in the other operating costs.

Details of the fair value hierarchy as at 31 December 2018 and 31 December 2017:

	31.12.2018 Audited	Level 1	Level 2	Level 3
Investment property:	**20 445**	**-**	**-**	**20 445**
Offices	15 785	-	-	15 785
Land	2 048	-	-	2 048
Deposits of natural aggregates	2 612	-	-	2 612

	31.12.2017 Audited	Level 1	Level 2	Level 3
Investment property:	**20 097**	**-**	**-**	**20 097**
Offices	15 438	-	-	15 438
Land	1 715	-	-	1 715
Deposits of natural aggregates	2 944	-	-	2 944

Level 1 – quoted market prices for similar assets or liabilities in active markets;

Level 2 – prices in active markets other than the quoted market prices – set directly (by comparison with actual transactions) or indirectly (by application of measurement methods based on actual transactions);

Level 3 – prices other than prices in active markets.

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

Reconciliation of the opening and closing balance of goodwill is as follows:

	Year ended	
	31.12.2018 Audited	**31.12.2017 Audited**
As at the beginning of the period (Level 3)	**20 097**	**21 226**
Sale	-	(252)
Gains (losses) recognized in profit and loss account	346	(863)
Exchange rate differences	2	(14)
As at the end of the period (Level 3)	**20 445**	**20 097**
Unrealised profits (losses) in the period recognised in P&L (as other operating costs or revenues)	346	(863)

Rental income and direct operating expenses related to investment property were as follows:

	Year ended	
	31.12.2018 Audited	**31.12.2017 Audited**
Rental income from investment property	368	243
Direct operating costs from investment property that during the period generated rental income	209	175

No Investment property was pledged as collateral, as described in detail in Note 55.

(figures in PLN '000, unless stated otherwise)

24. Goodwill on consolidation

As at the balance sheet date, the Group's consolidated financial statements contain goodwill with a total value of PLN 357,514 thousand (31 December 2017: PLN 376,728 thousand), recognised in the following balance sheet items:

- goodwill on consolidation: PLN 308,782 thousand (31 December 2017: PLN 327,996 thousand);

- intangible assets: PLN 48,732 thousand (31 December 2017: PLN 48,732 thousand);

Goodwill on consolidation

	31.12.2018 Audited	31.12.2017 Audited
Goodwill at cost	394 557	389 528
Acumulated impairment	(85 775)	(61 532)
Goodwill after all write-offs	**308 782**	**327 996**

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
Balance at the beginning of the period	**327 996**	**337 855**
Decreases	**(24 243)**	**-**
Impairment charged to P&L during the year	(24 243)	-
Exchange rate differences	**5 029**	**(9 859)**
Balance at the end of the period	**308 782**	**327 996**

Allocation of goodwill to cash-generating units ("CGUs") net of impairment losses

For the purpose of impairment testing as at 31 December 2018, goodwill was allocated to the following cash-generating units:

As at 31.12.2018 Audited	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Spółki z Gr.AB Kauno Tiltai	CGU: PRK7 Nieruchomości	Total
Allocated goodwill before recognition of write-downs	**58 160**	**37 741**	**256 833**	**4 780**	**357 514**
recognized in goodwill on consolidation	9 428	37 741	256 833	4 780	308 782
recognized in intangible assets	48 732	-	-	-	48 732

As at 31.12.2017 Audited	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Spółki z Gr.AB Kauno Tiltai	CGU: PRK7 Nieruchomości	Total
Allocated goodwill before recognition of write-downs	**58 160**	**37 741**	**276 047**	**4 780**	**376 728**
recognized in goodwill on consolidation	9 428	37 741	276 047	4 780	327 996
recognized in intangible assets	48 732	-	-	-	48 732

Goodwill impairment test

As at 31 December 2018, goodwill allocated to all cash-generating units was tested for impairment. The recoverable amount of CGUs is determined by calculating the value in use. With the exception of PRK7 Nieruchomości Sp. z o.o., where due to the long-term nature of the investment plans the 10-year projection was used, the calculations use cash flow projections over a five-year period. Cash flows beyond the five-year period, and in the case of PRK7 Nieruchomości Sp. z o.o. – ten-year period, were estimated at a constant level. The growth rate in the residual period was set at 2% and it does not exceed the long-term inflation rate. The Management Board determines the budgeted margin on the basis of historical performance, updated contract budgets and its projections regarding market growth. Weighted average growth rates are consistent with the projections presented in industry reports. The discount rate applied is a pre-tax rate reflecting specific threats to individual segments not included in the cash flow projections, calculated using the CAPM model.

(figures in PLN '000, unless stated otherwise)

Main assumptions adopted for goodwill impairment testing:

As at 31.12.2018	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PRK7 Nieruchomości	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Companies from AB Kauno Tiltai Group
WACC before taxation	12,8%	12,7%	12,7%	10,2%
WACC after taxation	10,5%	10,5%	10,5%	8,9%
EBITDA margin	3,2% - 8%	1,8% - 10%	4,5% - 11,2%	3,7% - 7,3%
Growth rate in the residual period	2,0%	2,0%	2,0%	2,0%

As at 31.12.2017	CGU: Trakcja PRKiI S.A., Torprojekt Sp. z o.o., BTW Sp. z o.o.	CGU: PRK7 Nieruchomości	CGU: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM S.A.	CGU: Companies from AB Kauno Tiltai Group
WACC before taxation	11,4%	11,8%	11,7%	9,0%
WACC after taxation	10,1%	10,1%	10,1%	7,9%
EBITDA margin	3,8%-5,7%	2,8%-9,9%	6,6%-9,8%	5,7%-8,0%
Growth rate in the residual period	2,0%	1,2%	2,0%	2,0%

As at 31 December 2018, the impairment test carried out resulted in the impairment of goodwill allocated to CGU comprising companies from the AB Kauno Tiltai Group in the amount of PLN 24,243 thousand. The impairment loss was presented in a separate item of the consolidated income statement. As at 31 December 2017, goodwill was tested for impairment and the results did not indicate any impairment of the asset.

The sensitivity analysis carried out indicates that significant factors affecting the estimates of the value in use of cash-generating units include profitability of construction contracts in progress and the discount rate used.

Below is presented an analysis of the sensitivity of the recoverable amount of cash-generating units to changes in individual indicators used in the impairment test, using the after-tax discount rate.

Sensitivity analysis for CGU comprising: Trakcja PRKiI, Torprojekt Sp. z o.o. and BTW Sp. z o.o.

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 2,5%	20 032	(20 032)
WACC	+/- 0,25 p.p.	(11 494)	12 176

The Group analysed the sensitivity of the change in EBITDA by +/- 2.5% and in after-tax WACC by +/-0.25 p.p., which led to the conclusion that a reasonable change in assumptions would not trigger the need to recognise an impairment loss.

(figures in PLN '000, unless stated otherwise)

Sensitivity analysis for CGU comprising: PEUiM Sp. z o.o., Dalba Sp. z o.o., PDM Białystok S.A.

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 2,5%	2 228	(2 228)
WACC	+/- 0,25 p.p.	(1 428)	1 512

The Group analysed the sensitivity of the change in EBITDA by +/- 2.5% and in after-tax WACC by +/-0.25 p.p., which led to the conclusion that a reasonable change in assumptions would not trigger the need to recognise an impairment loss.

Sensitivity analysis for CGU comprising companies from the AB Kauno Tiltai Group

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 2,5%	13 876	(13 876)
WACC	+/- 0,25 p.p.	(13 350)	14 380

For the above CGUs, an impairment loss was recognised as at 31 December 2018, therefore any additional change in the above parameters would result in a change in the recognised impairment loss on goodwill.

Sensitivity analysis for CGU comprising PRK7 Nieruchomości

Factor applied	Reasonable possibility of factor change	Impact on the recoverable amount of the cash-generating unit	
		increase	decrease
EBITDA	+/- 2,5%	2 005	(2 005)
WACC	+/- 0,25 p.p.	(1 799)	1 920

The Group analysed the sensitivity of the change in EBITDA by +/- 2.5% and in after-tax WACC by +/-0.25 p.p., which led to the conclusion that a reasonable change in assumptions would not trigger the need to recognise an impairment loss.

25. Intangible assets

Structure of intangible assets:

	31.12.2018 Audited	31.12.2017 Audited
Research and development costs	1 470	2 010
Goodwill	48 733	48 732
Acquired concessions, patents, licences and similar items of value,	1 796	2 527
- software	1 499	2 176
Other tangible non-current assets	2	5
Intangible assets under construction	347	479
Total	**52 348**	**53 753**

(figures in PLN '000, unless stated otherwise)

Movements in intangible assets:

Financial year ended 31.12.2018 Audited	**Research and development expenses**	**Goodwill**	**Software licences**	**Other licences, concessions, patents**	**Other intangible assets**	**Intangible assets under construction**	**Total**
Net book value at the beginning of the year	**2 010**	**48 732**	**2 176**	**352**	**5**	**478**	**53 753**
Increases	91	-	406	8	-	163	**668**
Movements	294	-	-	-	-	(294)	**-**
Liquidation	-	-	(12)	-	-	-	**(12)**
Amortization	(926)	-	(1 082)	(64)	(3)	-	**(2 075)**
Other decreases	-	-	(10)	-	-	-	**(10)**
Variances due to currency translation	1	1	21	1	-	-	**24**
Net book value at the end of the year	**1 470**	**48 733**	**1 499**	**297**	**2**	**347**	**52 348**

As at 31.12.2018 Audited							
(Gross) cost or value from valuation	8 865	48 732	9 947	708	668	347	**69 267**
Amortization and impairment write-offs	(7 396)	-	(8 469)	(412)	(666)	-	**(16 943)**
Variances due to currency translation	1	1	21	1	-	-	**24**
Net book value	**1 470**	**48 733**	**1 499**	**297**	**2**	**347**	**52 348**

Financial year ended 31.12.2017 Audited	**Research and development expenses**	**Goodwill**	**Software licences**	**Other licences, concessions, patents**	**Other intangible assets**	**Intangible assets under construction**	**Total**
Net book value at the beginning of the year	**2 953**	**48 732**	**2 885**	**385**	**2**	**334**	**55 291**
Increases	54	-	530	32	6	144	**766**
Liquidation	-	-	(12)	-	-	-	**(12)**
Amortization	(990)	-	(1 186)	(63)	(3)	-	**(2 242)**
Other reduce	-	-	-	-	-	-	**-**
Variances due to currency translation	(7)	-	(41)	(2)	-	-	**(50)**
Net book value at the end of the year	**2 010**	**48 732**	**2 176**	**352**	**5**	**478**	**53 753**

As at 31.12.2017 Audited							
(Gross) cost or value from valuation	8 597	48 732	9 709	704	682	478	**68 902**
Amortization and impairment write-offs	(6 580)	-	(7 492)	(350)	(677)	-	**(15 099)**
Variances due to currency translation	(7)	-	(41)	(2)	-	-	**(50)**
Net book value	**2 010**	**48 732**	**2 176**	**352**	**5**	**478**	**53 753**

(figures in PLN '000, unless stated otherwise)

Ownership structure of intangible assets:

	31.12.2018 Audited	31.12.2017 Audited
Proprietary	52 348	53 753
Total	**52 348**	**53 753**

In 2018 and 2017, the Group did not recognise expenses in the income statement which were not capitalised in intangible assets as research and development expenses.

No intangible assets have been pledged as collateral.

26. Other financial assets

	31.12.2018 Audited	31.12.2017 Audited
Financial assets valued at amortised cost	**18 284**	**17 435**
Bank guarantees deposits	15 994	17 222
Loans granted and receivables	-	213
Other bank deposits	2 290	-
Loans granted and own receivables	**-**	**41 571**
Financial assets related to the concession agreement	-	41 571
Total	**18 284**	**59 006**
including:		
- recognised as non-current assets	4 511	44 147
- recognised as current assets	13 773	14 859

In 2018, there was no impairment of individual financial assets. Following the entry into force of IFRS 9 on 1 January 2018, the Group recognised deposits under bank guarantees as well as loans and receivables granted as assets measured at amortised cost.

The financial assets related to concession agreement are described in detail in Note 52 of the Notes to the consolidated annual financial statements for 2018. The Group accounts for the aforementioned financial asset related to concession agreement in accordance with IFRIC 12. As at 31 December 2018, the Group reclassified this asset to Available-for-sale assets. For details, see Note 34.

27. Joint operations

27.1. Jointly controlled operations – contracts performed in consortia

The Group performs certain long-term contracts under consortium agreements, as the consortium leader, without establishing separate entities. The Group recognises shares in such contracts as shares in joint operations in accordance with IFRS 11. Therefore, the Group does not recognise in profit or loss any such part of the revenues or costs related to such contracts as is attributable to the consortium members.

(figures in PLN '000, unless stated otherwise)

28. Prepayments

Prepayments by type:

	31.12.2018 Audited	31.12.2017 Audited
Prepayments, including:	20 799	16 176
- insurance and insurance guarantees	15 536	11 616
- PKP (Polish Railways) identification documents	27	65
- repair and maintenance of wagons, locomotives	5 236	4 495
Other prepayments and accruals	1 584	971
Total	**22 383**	**17 147**

Prepayments by age:

	31.12.2018 Audited	31.12.2017 Audited
Long-term	9 070	7 914
Short-term	13 313	9 233
Total	**22 383**	**17 147**

29. Inventories

	31.12.2018 Audited	31.12.2017 Audited
Materials	68 693	63 012
Semi-finished goods and products in progress	5 172	8 011
Finished goods	4 727	13 624
Merchandise	9 022	10 014
Total, gross inventory	**87 614**	**94 661**
Inventory revaluation write-offs	**(760)**	**(634)**
Materials	67 980	62 426
Semi-finished goods and products in progress	5 172	8 011
Finished goods	4 700	13 597
Merchandise	9 002	9 993
Total, net inventory	**86 854**	**94 027**

Costs of inventories recognised in operating expenses of the current period amounted to PLN 505,164 thousand (PLN 510,566 thousand in 2017).

(figures in PLN '000, unless stated otherwise)

Change in impairment losses on inventories:

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
Balance at the beginning of the period	**634**	**688**
Increases	**112**	**75**
Establishment	112	75
Decreases	**-**	**(102)**
Dissolution	-	(102)
Exchange rate differences	**14**	**(28)**
Balance at the end of the period	**760**	**634**

The recognition and reversal of impairment losses on inventories were included in "Cost of sales" in the consolidated income statement. Impairment losses on inventories are recognised in accordance with the principles set out in Note 9.12.

Inventories have been pledged as collateral, as described in Note 55.

30. Trade and other receivables

Structure of trade and other receivables:

	31.12.2018 Audited	31.12.2017 Audited
Gross trade receivables, before discounting	**288 003**	**334 961**
Discounting of receivables	-	-
Total, gross trade receivables	**288 003**	**334 961**
including:		
- receivables from related entities	*1 607*	*2 780*
Budgetary receivables	2 960	1 942
Receivables claimed in court	3 884	4 320
Receivables from sale of property	53 000	-
Other receivables from third parties	28 804	25 692
Amounts held	23 921	25 859
- amounts held from related entities	*2 431*	-
Advances paid	842	938
Total, gross trade and other receivables	**401 414**	**393 712**
Expected credit loss	(72 524)	-
Receivables revaluation write-offs	-	(69 617)
Total	**328 890**	**324 094**

Receivables from related parties are disclosed in Note 57.

In the calculation of the expected credit loss, the Capital Group applies a practical simplification in accordance with IFRS 9 - lifetime expected credit losses on trade receivables are assessed in terms of "age table of past due receivables". Requirements:

- Based on historical experience
- Determines fixed % of allowances
- The tables differ depending on the historical experience of each customer group

(figures in PLN '000, unless stated otherwise)

For trade receivables, the Capital Group applies a portfolio approach whereby historical data on the ratio of uncollected receivables to total receivables that have reached a specified delinquency bracket for each risk category are analysed. The Capital Group has defined the following brackets:

- Paid on or before the due date
- Paid up to 30 days after the due date
- Paid 31-90 days after the due date
- Paid 91-180 days after the due date
- Paid 181-365 days after the due date
- Paid later than 365 days after the due date
- Unpaid

For two financial years prior to the year under analysis (T-2 and T-1), the Group determines how many invoices issued during the year were finally paid in each of the brackets. On this basis, the next statement is created - a cumulative statement of total sales on invoices for subsequent periods (how many of the invoices issued in a given year were in the bracket of 0-30 days past due for at least 1 day, how many invoices were in the bracket of 31-60 days for at least 1 day, etc. up to the amount of invoices that were never paid).

The amount of receivables unpaid is applied to each of the aggregated amounts in order to calculate the portion of the receivables in a given bracket that will not be recovered. This percentage is used as the allowance ratio for the bracket. The amount of unpaid receivables may be adjusted either upwards or downwards depending on the Group's expectations concerning future non-recoverable amounts due to trends in the factors affecting the recoverability of receivables.

weights are assigned to the allowance ratios for each year under review and the weighted average allowance ratio is calculated for each bracket.

This calculation method ensures calculation of future expected credit losses based on historical loss experience for each age bracket of receivables and enables modification of the allowance ratio for expected changes in the recoverability of receivables.

Trade receivables and retentions:

	31.12.2018 Audited	31.12.2017 Audited
Net trade receivables		
With maturity within 12 months	253 979	305 365
With maturity over 12 months	9 579	10 653
Discounting of receivables	-	-
Total, net trade receivables after discounting	**263 558**	**316 018**

Receivables maturing in more than 12 months include retentions which serve as additional security for the proper performance of contracts.

The Group decided not to recognise the discount of long-term receivables due to their immateriality.

(figures in PLN '000, unless stated otherwise)

The maturity structure of total retentions is presented in the table below:

	31.12.2018 Audited	31.12.2017 Audited
Up to 12 months	20 866	22 254
Over 12 months	3 055	3 605
Total	**23 921**	**25 859**

Trade receivables bear no interest and are usually payable within 30 days.

The Group operates a policy of selling its products and services only to customers whose credibility has been verified. The management believes that thanks to this policy there is no additional credit risk beyond the level defined by the impairment losses recognised with respect to uncollectible trade receivables of the Group. As at the balance sheet date, receivables from PKP PLK S.A. account for 26% of the total receivables of Trakcja Group.

Due to the short-term nature of trade receivables, their carrying amount approximates their fair value.

Change in expected credit loss on trade and other receivables in 2018 and Change in impairment loss on trade and other receivables in 2017:

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
As at start of period	**69 617**	**26 003**
Correction IFRS 9	**3 221**	**-**
Increases	**5 292**	**47 796**
Establishment	5 292	47 796
Full consolidation method for a new Subsidiary	-	-
Decreases	**(5 655)**	**(4 235)**
Use	(40)	(971)
Dissolution	(5 615)	(3 264)
Variances due to currency translation	**49**	**53**
As at end of period	**72 524**	**69 617**

Recognition and reversal of impairment losses or expected credit loss on trade and other receivables are presented under cost of sales.

During 2018, the following amounts of expected credit loss were transferred between the impairment recognition stages:

	Etap 2	Etap 3
At as 01.01.2018	**8 841**	**39 530**
Transfer	-	-
Founding/Dissolve	446	(79)
At as 31.12.2018	**9 372**	**38 995**

Trade receivables and retentions are assessed for impairment using the simplified model defined in paragraph 5.5.15 of IFRS 15. Therefore, an allowance for lifetime credit losses is calculated starting from their origination. As a consequence, it is presented under Stage 2 in the table above.
If a specific evidence of impairment of individual receivables is identified, they are transferred to individual assessment and presented in Stage 3.

(figures in PLN '000, unless stated otherwise)

Trade receivables and retentions by maturity:

	31.12.2018 Audited	31.12.2017 Audited
Up to 1 month	140 793	144 135
From 1 month to 3 months	47 058	76 444
From 3 months to 6 months	6 055	4 035
From 6 months to 1 year	2 821	1 416
More than 1 year	10 908	11 952
Overdue receivables	55 923	78 036
Total, net trade receivables	**263 558**	**316 018**

Structure of overdue receivables and retentions:

	31.12.2018 Audited	31.12.2017 Audited
Up to 1 month	12 098	23 215
From 1 month to 3 months	10 340	40 437
From 3 months to 6 months	3 090	6 479
From 6 months to 1 year	8 353	39 466
More than 1 year	69 404	13 242
Total, gross overdue trade receivables	**103 285**	**122 839**
Receivables revaluation write-offs oraz expected credit loss	(47 362)	(44 803)
Total, net overdue trade receivables	**55 923**	**78 036**

(figures in PLN '000, unless stated otherwise)

Structure of overdue and non-overdue receivables and retentions by impairment recognition method:

	31.12.2018 Audited		01.01.2018	
	Gross value	Loss allowance	Gross value	Impairment
Receivables included in the group analysis				
Not past-due	167 459	1 438	158 630	1 444
Up to 1 month	4 362	56	10 764	277
From 1 month to 3 months	4 289	209	19 386	1 324
From 3 months to 6 months	2 355	493	4 400	900
From 6 months to 1 year	4 916	2 028	2 194	810
More than 1 year	9 879	5 149	7 266	4 087
Total	**193 260**	**9 373**	**202 640**	**8 842**
Receivables included in the individual analysis (infrastructure companies)	79 671	-	122 220	-
Total	**79 671**	**-**	**122 220**	**-**
Included in the individual analysis in connection with condition for impairment				
Not past-due	-	-	-	-
Up to 1 month	-	-	-	-
From 1 month to 3 months	-	-	-	-
From 3 months to 6 months	5	5	5	5
From 6 months to 1 year	28	28	203	203
More than 1 year	38 961	38 961	39 321	39 321
Total	**38 994**	**38 994**	**39 529**	**39 529**
Total	**311 925**	**48 367**	**364 389**	**48 371**

Currency structure of gross trade and other receivables:

	31.12.2018 Audited	31.12.2017 Audited
In PLN	345 902	312 492
In foreign currencies - after conversion into PLN, including:	55 512	81 220
in EUR	43 095	76 369
in SEK	6 508	4 404
in BGN	-	447
in USD	3 231	-
in UAH	2 678	-
Total	**401 414**	**393 712**

Receivables claimed in court:

	31.12.2018 Audited	31.12.2017 Audited
Receivables claimed in court	3 884	4 320
Receivables revaluation write-offs oraz expected credit loss	(3 104)	(4 318)
Total	**780**	**2**

(figures in PLN '000, unless stated otherwise)

31. Cash and cash equivalents

Cash at bank bears interest at variable interest rates which depend on the daily interest rate of bank deposits.

Short-term deposits have terms which differ from one day to one month depending on the Group's actual requirement for cash and they bear interest accrued according to the negotiated interest rates.

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

	31.12.2018 Audited	31.12.2017 Audited
Cash in hand	130	121
Cash at bank	81 225	90 012
Other cash - deposits	35 332	22 052
Total cash and cash equivalents	**116 687**	**112 184**
Cash and cash equivalents excluded from cash flow statement	(12)	(12)
Cash and cash equivalents presented in cash flow statement	**116 675**	**112 172**

Cash excluded from the statement of cash flows as at 31 December 2018 comprises cash blocked on the property development project accounts in the amount of PLN 12 thousand.

Currency structure of cash and cash equivalents:

	31.12.2018 Audited	31.12.2017 Audited
In PLN	84 352	42 703
In foreign currencies - after conversion into PLN, including:	32 335	69 482
in EUR	27 109	58 640
in USD	-	3
in BYR	-	9
in SEK	3 016	10 823
in DKK	1	1
in UAH	2 135	-
in BGN	74	5
Total	**116 687**	**112 184**

(figures in PLN '000, unless stated otherwise)

Cash at banks – ratings:

	31.12.2018 Audited	31.12.2017 Audited
Bank with AA- rating	30 963	69 402
Bank with A+ rating	-	1
Bank with A rating	2 583	131
Bank with A- rating	652	2 119
Bank with BBB+ rating	49 231	3 083
Bank with BBB rating	19 119	25 890
Bank with BBB- rating	74	24
Bank with BB rating	2 412	4 577
Bank with BB- rating	9 197	1
Bank with B+ rating	-	5 959
Bank with B- rating	809	-
Bank without rating	1 360	96
Total	**116 400**	**111 283**
Cash in hand	130	121
Balance (note 59)	157	780
Cash at the end of the period	**116 687**	**112 184**

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

32. Explanatory notes to the consolidated statement of cash flows

In June 2018, the Parent Company signed an investment loan agreement transferring the ownership right to the gravel cleaning machine and 6 conveyors to mLeasing Sp. z o.o. in the total net amount of PLN 29,862 thousand, and subsequently entered them into the records under leaseback contracts (in accordance with SIC-27, the transaction had the nature of a loan – see Note 22). The amount receivable from mLeasing Sp. z o.o. was offset with a liability on account of a previously contracted loan from mLeasing Sp. z o.o., whose value as at 30 June 2018 amounted to PLN 6,829 thousand and decreased by initial fees in the net amount of PLN 5,972 thousand. The Parent Company received an inflow of cash in the net amount of PLN 17,061 thousand. Due to the non-cash nature of the transaction, the Group did not recognise any cash flows on account of offsetting.

(figures in PLN '000, unless stated otherwise)

33. Settlements under contracts with customers

	31.12.2018 Audited	01.01.2018*
Asset on account of contracts with customers	**206 887**	**146 787**
- valuation allowance for asset from contracts	-	-
Surplus of revenues resulting from degree of advancement over invoiced revenues	174 351	108 819
Advances paid towards contracts being performed	32 536	37 968
Liabilities on account of contracts with customers	**141 258**	**158 923**
Surplus of invoiced revenues over revenues resulting from degree of advancement	21 570	12 294
Advances received towards contracts being performed	117 989	146 588
Advances received towards apartments	1 699	42

**The Group applied the retrospective method with the combined effect of the first application of IFRS 15 in retained earnings. According to the selected method, comparative data is not transformed. Information on the method of applying IFRS 15 is presented in Note 10*

In the statement of financial position, the Group recognises a contract asset, i.e. the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time. This item of the statement of financial position includes, in particular, assets relating to completed and delivered works under long-term construction contracts that have not yet been invoiced and the recognition of revenue in connection with the transfer of control over products or goods that will be invoiced in the future.

In the statement of financial position, the Group recognises a contract liability, i.e. the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group recognises a contract liability mainly in relation to contracts for which the payment is made in advance and in relation to the consideration for construction works received in advance for services not yet provided by the Group.

No adjustments to revenue were made in any of the periods presented that would affect an asset or liability for contracts with customers in connection with the settlement of changes in contracts or changes in the estimated transaction price. In addition, no revenue was recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.

	Asset component agreements	Commitment agreements
Revenues recognized in the reporting period, included in the balance of liabilities due to contracts at the beginning of the period	-	(158 923)
Increases from title. funds received, with the exception of amounts recognized as revenue during the reporting period	-	146 787
Reclassification of an asset from contracts recognized in the balance at the beginning of the period for receivables	(142 935)	-
Increases due to recognition of revenues, excluding amounts reclassified to receivables during the reporting period	203 035	-
Write-down of the value of an asset item agreement	-	-

The advances towards contracts being performed are disclosed as the short-term liabilities and will be settled during the performance of contracts in the course of the Company's normal operating cycle.

(figures in PLN '000, unless stated otherwise)

Transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period

	1 year	1-3 years	over 3 years	Total
The transaction price assigned to the obligations to perform the service that will be met during:	754 096	1 157 119	-	1 911 215

The Group applies a practical expedient and does not disclose the total amount of the transaction price allocated to performance obligations that are not satisfied at the end of the reporting period if the performance obligation is a part of a contract whose expected original term is one year or less and for contracts for which it recognises revenue in the amount that it has the right to invoice, corresponding directly to the value to the customer of the Group's performance completed to date.

Contract costs recognised as an asset

No items meeting the definition of contract costs recognised as an asset were identified. Therefore, no specific disclosures are required.

34. Assets held for sale

On 10 December 2018, the Supervisory Board of AB Kauno Tiltai with its registered office in Lithuania, a member of the Issuer's Capital Group, gave its consent:

- to sell all shares in UAB Pletros investicijos with its registered office in Lithuania ("Company") in which AB Kauno Tiltai holds 100% of shares;

- to transfer the rights and obligations, including the right to the receivables, of the Loan Agreement made between AB Kauno Tiltai and the Company.

For details, see CR 25/2018.

The planned transaction meets the conditions for classification of fixed assets as held for sale specified in IFRS 5. Therefore, the Group reclassified assets in the amount of PLN 47,925 thousand (segment: Construction, engineering and concession arrangements – Baltic States) to non-current assets held for sale, together with liabilities of the disposal group classified as held for sale in the amount PLN 37,902 thousand. On 26 April 2019, AB Kauno Tiltai concluded an agreement with SPV-39 UAB. The total amount of the transaction was EUR 2.97 million (i.e. approximately PLN 12.8 million). The preconditions for the performance of the agreement include obtaining the required approvals from banks and public institutions. Ownership rights will be transferred upon fulfilment of the conditions of the Agreement, not later than by 31 August 2019.

On 30 November 2018, the Extraordinary General Meeting of Trakcja PRKiI S.A. adopted a resolution to dispose of a real estate and perpetual usufruct of a real estate at ul. Oliwska 11 in Warsaw for a net price not lower than PLN 14 million. For or details, see CR 23/2018 and CR 20/2018. The planned transaction meets the conditions for classification of fixed assets as held for sale specified in IFRS 5. Therefore, the Group reclassified assets in the amount of PLN 3,825 thousand (segment: Civil engineering – Poland) to non-current assets held for sale. The Parent Company intends to complete the sale in 2019.

35. Capital risk management

The goal of the Group in managing the capital risk is maintaining the Group ability to continue the business and maintain optimum capital structure to provide return on investment to the shareholders. To maintain or adjust its capital structure, the Group may issue new shares, adjust the amount of dividends paid to shareholders, increase debt, or sell assets to reduce debt. The Group monitors its capital structure using the financing structure ratios. The ratios analysed by the Group, presented in the below table, allow for the acceptable credit rating to be maintained and confirm that the Group's capital structure supports its operating activities.

(figures in PLN '000, unless stated otherwise)

	31.12.2018 Audited	31.12.2017 Audited
Equity to assets ratio	0,42	0,52
Equity to non-current assets ratio	0,90	1,03
Debt ratio	0,58	0,48
Debt to equity ratio	1,39	0,91

Powyższe wskaźniki zostały wyliczone według następujących wzorów:
Pokrycie majątku kapitałem własnym = kapitał własny przypisany akcjonariuszom Jednostki dominującej / aktywa ogółem
Pokrycie majątku trwałego kapitałem własnym = kapitał własny przypisany akcjonariuszom Jednostki dominującej / aktywa trwałe
Wskaźnik zadłużenia całkowitego = (aktywa ogółem - kapitał własny przypisany akcjonariuszom Jednostki dominującej) / aktywa ogółem
Wskaźnik zadłużenia kapitałów własnych = (aktywa ogółem - kapitał własny przypisany akcjonariuszom Jednostki dominującej) / kapitał własny przypisany akcjonariuszom Jednostki dominującej

36. Equity

Share capital

As at December 31, 2018 and as at the preparation hereof, the Parent Company's share capital, in accordance with the entry in the National Court Register, was PLN 41 119 638.40 and was divided into 51 399 548 ordinary shares with a nominal value of PLN 0.80 per share. Each share constitutes one vote at the General Meeting of Shareholders. All shares are fully paid-up.

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

Shareholders	Number of shares	% in share capital	Number of votes	% in votes at GSM
COMSA S.A.	16 156 193	31,43%	16 156 193	31,43%
OFE PZU "Złota Jesień"*	5 732 694	11,15%	5 732 694	11,15%
Other	29 510 661	57,41%	29 510 661	57,41%
Total	**51 399 548**	**100,00%**	**51 399 548**	**100,00%**

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

Since the date of submission of the last interim report, i.e. 15 November 2018, the Parent Company has not received any notification from shareholders informing about a change in the total number of votes held in the Parent Company.

Share premium account

As at December 31, 2018 the total surplus of the issue value over the nominal value of shares was PLN 309 984 thousand, and did not change in comparison to its value as at December 31, 2017.

Other capital reserves

Other capital reserves include:

- Previous years' profits – capital arising from profits generated in the preceding financial years. The Parent Company is obliged to create a supplementary capital from at least 8% of the profit generated for a given financial year until it amounts to at least one third of share capital. Such capital reserves are non-distributable.

- Hedging instruments – an effective part of changes in fair value of derivative instruments classified as cash flow hedges are recognised in other comprehensive income and accumulated in capital reserves for cash flow hedges. Such capital reserves are non-distributable.

- Actuarial gains (losses) – the Group recognises actuarial gains and losses on provisions for employee benefits in other comprehensive income and accumulates them in capital reserves. Such capital reserves are nondistributable.

Revaluation reserve

Revaluation reserve includes mainly remeasurement effects caused by a change in the purpose of non-current assets.

Foreign exchange differences from conversion of foreign currencies

As a result of the 2011 acquisition of companies whose functional currency until December 31, 2014 was the Lithuanian litas (LTL), and from January 1, 2015 is the euro, the Parent Company translates the financial statements of these companies into the presentation currency which is PLN. Any foreign currency differences arising from such a translation are recognised directly in equity as a separate item. The foreign exchange differences arising from the translation at the end of 2018 were PLN 15 840 thousand.

Undistributed profit/loss

The Group's undistributed profit or loss is the current profit or loss for a given financial year. Dividends may be distributed based on the financial profit specified in the separate annual financial statements of the Parent Company drawn up for statutory objectives.

(figures in PLN '000, unless stated otherwise)

Other comprehensive income by component of equity

	Equity attributable to shareholders of parent entity				
	Other capital reserves	Foreign exchange differences on translation of foreign operations	Total	Non-controlling interest	Total equity
As at 31.12.2018					
Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:	**(269)**	**-**	**(269)**	**(3)**	**(272)**
Gains on revaluation charged to revaluation reserve	-	-	-	-	-
Actuarial gains/(losses)	(269)	-	(269)	(3)	(272)
Other comprehensive income, which will be reclassified to profit or loss:	**181**	**8 747**	**8 928**	**(50)**	**8 878**
Foreign exchange differences on translation of foreign operations	-	8 747	8 747	(90)	8 657
Cash flow hedging instruments	181	-	181	40	221
Other comprehensive net income	**(88)**	**8 747**	**8 659**	**(53)**	**8 606**

	Equity attributable to shareholders of parent entity				
	Other capital reserves	Foreign exchange differences on translation of foreign operations	Total	Non-controlling interest	Total equity
As at 31.12.2017					
Other comprehensive income, which will not be reclassified to profit or loss under certain conditions:	**(571)**	**-**	**(571)**	**(10)**	**(581)**
Actuarial gains/(losses)	(571)	-	(571)	(10)	(581)
Other comprehensive income, which will be reclassified to profit or loss:	**822**	**(19 831)**	**(19 009)**	**173**	**(18 836)**
Foreign exchange differences on translation of foreign operations	-	(19 831)	(19 831)	(121)	(19 952)
Cash flow hedging instruments	822	-	822	294	1 116
Other comprehensive net income	**251**	**(19 831)**	**(19 580)**	**163**	**(19 417)**

Non-controlling interests

The change in non-controlling interests was presented in the statement of changes in consolidated equity.

Having analysed the amounts of equity attributable to the non-controlling interests, the Management Board of the Parent Company decided that they are insignificant, and therefore these financial statements contain no information about the non-controlling interests in accordance with IFRS 12.

(figures in PLN '000, unless stated otherwise)

37. Provisions

	Provisions for recultivation	Provision for costs	Provisions for litigious liabilities	Provisions for correction works	Provision for noncompetition payments and other compensation	Provisions for bonuses	Provisions for audit costs	Provision for anticipated losses on contracts	Other provisions	Total
As at 1.01.2018 Modified	**2 675**	**-**	**797**	**12 871**	**375**	**7 576**	**277**	**-**	**1 525**	**26 096**
Influence over IFRS 15	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12 465**	**-**	**12 465**
Recognised in income statement:										
- provision creation	-	1 400	-	4 014	-	6 526	464	46 062	1 964	60 430
- release of unused provisions	-	-	-	(1 356)	(225)	(1 020)	-		(398)	(2 999)
- use of provisions	-	(1 400)	(99)	(2 317)	(150)	(8 281)	(409)	(9 779)	(1 649)	(24 084)
- liabilities of group to be classified as held for sale	-	-	-	-	-	-	(29)	-	-	(29)
- variances due to currency translation	83	-	5	74	-	63	1		-	226
Total	**83**	**-**	**(94)**	**415**	**(375)**	**(2 712)**	**27**	**48 748**	**(83)**	**46 009**
As at 31.12.2018 Audited	**2 758**	**-**	**703**	**13 286**	**-**	**4 864**	**304**	**48 748**	**1 442**	**72 105**

The provision for bonuses includes mainly provisions for bonuses paid to blue and white-collar workers.

(figures in PLN '000, unless stated otherwise)

	Provisions for recultivation	Provision for costs	Provisions for litigious liabilities	Provisions for correction works	Provision for noncompetition payments and other compensation	Provisions for bonuses	Provisions for audit costs	Other provisions	Total
As at 1.01.2017 Audited	**2 863**	**302**	**1 087**	**39 391**	**900**	**13 370**	**286**	**2 973**	**63 003**
Recognised in income statement:									
- provision creation	-	-	-	2 995	225	6 988	347	722	11 276
- release of unused provisions	-	-	(250)	(20 498)	-	(3 888)	(100)	(1 935)	(28 502)
- use of provisions	(25)	(302)	(29)	(8 828)	(750)	(8 392)	(252)	(136)	(18 714)
- variances due to currency translation	(163)	-	(11)	(189)	-	(502)	(4)	(100)	(968)
Total	**(188)**	**(302)**	**(290)**	**(26 520)**	**(525)**	**(5 794)**	**(9)**	**(1 449)**	**(36 906)**
As at 31.12.2017 Audited	**2 675**	**-**	**797**	**12 871**	**375**	**7 576**	**277**	**1 525**	**26 096**

(figures in PLN '000, unless stated otherwise)

Provisions for additional works are estimated based on the knowledge of the contract directors with regard to the required or potential performance of additional works for the benefit of the contracting entity, in order to fulfil warranty obligations.

38. Employee benefit liabilities

Liabilities on account of provisions for old-age and disability retirement severance payments and length-of-service awards:

	Year ended	
Provision for retirement and disability benefits	**31.12.2018 Audited**	**31.12.2017 Audited**
Beginning of period	**4 200**	**6 067**
Total costs recognised in profit and loss account:	334	(727)
- Interest costs	(22)	143
- Current service costs	880	890
- Past service costs	(524)	(1 760)
Actuarial losses (profit) recognised in other comprehensive income	(73)	(449)
Benefits paid	(227)	(541)
Exchange rate differences	74	(150)
End of period	**4 309**	**4 200**

	Year ended	
Provision for jubilee awards	**31.12.2018 Audited**	**31.12.2017 Audited**
Beginning of period	**2 682**	**6 458**
Total costs recognised in profit and loss account:	507	(2 312)
- Interest costs	67	111
- Current service costs	1 178	211
- Past service costs	(738)	(2 634)
Benefits paid	(868)	(1 464)
End of period	**2 321**	**2 682**

(figures in PLN '000, unless stated otherwise)

Liabilities on account of provisions for unused holiday entitlements and other employee benefits:

Provision for unused leaves	Year ended 31.12.2018 Audited	31.12.2017 Audited
As at start of period Audited	**11 007**	**10 033**
Recognised in profit and loss account:		
- provision creation	9 456	8 266
- release of unused provision	(2 158)	(427)
- use of provision	(3 676)	(6 677)
Variances due to currency translation	123	(188)
Total	**3 745**	**974**
As at end of period Audited	**14 752**	**11 007**

Employee benefit liabilities by maturity:

	Provision for pension benefits	Provision for jubilee awards
During 1 year	667	1 121
From 1 to 4 years	1 009	1 195
Over 4 years	2 633	5
Total	**4 309**	**2 321**

The weighted average term of post-employment benefit liabilities is 3 years.

Principles for recognising provisions for employee benefits:

The Group pays retirement benefits to retired employees pursuant to the applicable provisions of the Remuneration Rules. Therefore, based on valuation prepared based on actuarial methods, the Group recognises a provision for the present value of old-age and disability retirement severance payments and length-of-service awards. Following the adoption of new remuneration rules by the Parent Company on 3 June 2017, the provision for old-age and disability retirement benefits and length-of-service awards decreased.

To estimate the amount of provisions for employee benefits at the end of 2018, the Group applied a discount rate ranging from 2.5% to 3.6% (31 December 2017: 2.5% to 3.6%). The average expected salary growth in the Group was adopted at the level ranging from 1.8% to 3.3% (31 December 2017: 1.8% to 3.3%).

The sensitivity analysis of employee benefit liabilities is presented in the table below:

Factor applied	**Reasonably possible change of the factor**	**The impact on the recoverable amount of cash generating unit**	
		increase	**decrease**
Discount rate	+/- 1 p. p.	(291)	339
Salary growth	+/- 1 p. p.	295	(260)

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

(figures in PLN '000, unless stated otherwise)

39. Interest-bearing loans and borrowings

Long-term interest-bearing loans and borrowings:

	31.12.2018 Audited	31.12.2017 Audited
Bank loans	1 558	49 309
- investment loans	698	15 307
- working capital loans	860	2 394
- project purpose loans	-	31 608
Loans from other entities	21 318	8 301
- investment loans	21 318	8 301
Financial lease liabilities	43 495	30 051
Total	**66 371**	**87 661**

Short-term interest-bearing loans and borrowings:

	31.12.2018 Audited	31.12.2017 Audited
Bank loans	110 737	8 678
- investment loans	14 610	6 260
- working capital loans	79 016	1 387
- overdraft facility	17 111	-
- project purpose loans	-	1 031
Loans from other entities	4 632	7 232
- investment loans	4 632	7 232
Financial lease liabilities	17 190	12 628
Total	**132 559**	**28 538**
Total short and long term loan and credits	**198 930**	**116 199**

Currency structure of the Group's loans and borrowings:

	31.12.2018 Audited	31.12.2017 Audited
In PLN	190 852	68 263
In foreign currencies - after conversion into PLN, including:	8 078	47 936
in EUR	7 906	47 936
in UAH	172	-
Total	**198 930**	**116 199**

(figures in PLN '000, unless stated otherwise)

The table below presents long-term and short-term liabilities on account of loans and borrowings as at 31 December 2018:

Name of company	Lender Borrower	Type of loan/credit	Amount in agreement currency	Currency	Maturity date	Interests	Outstanding amount (in ths. PLN)
Trakcja PRKiI S.A.	mBank S.A.	overdraft facility	20 000	PLN	25.04.2019	WIBOR O/N + margin	-
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	50 000	PLN	27.09.2019	WIBOR 1M + margin	46 000
Trakcja PRKiI S.A.	mBank S.A.	investment credit	21 500	PLN	30.09.2021	WIBOR 1M + margin	13 912
Trakcja PRKiI S.A.	Pekao S.A.	overdraft facility	20 000	PLN	31.05.2019	WIBOR 1M + margin	16 781
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	15 000	PLN	12.02.2019	WIBOR 1M + margin	14 993
Trakcja PRKiI S.A.	mBank S.A.	working capital credit	15 000	PLN	12.02.2019	WIBOR 1M + margin	15 000
Trakcja PRKiI S.A.	ING Bank Śląski S.A.	overdraft facility	20 000	PLN	28.02.2019	WIBOR 1M + margin	-
Trakcja PRKiI S.A.	Credit Agricole Bank Polska S.A.	working capital credit	-	PLN	-	0	4
Trakcja PRKiI S.A.	mLeasing Sp. Z o.o.	investment loan	29 862	PLN	15.06.2028	WIBOR 1M + margin	22 727
Torprojekt Sp. z o.o.	ING Bank Śląski S.A.	working capital credit	2 000	PLN	28.02.2019	WIBOR 1R + margin	1 734
Bahn Technik Wrocław Sp. z o.o.	ING Bank Śląski S.A.	overdraft facility	2 500	PLN	30.04.2019	WIBOR 6M + margin	-
Bahn Technik Wrocław Sp. z o.o.	mBank S.A.	overdraft facility	1 000	PLN	16.04.2019	WIBOR ON + margin	330
Bahn Technik Wrocław Sp. z o.o.	mBank S.A.	working capital credit	1 500	PLN	16.04.2019	WIBOR 1M + margin	-
Bahn Technik Wrocław Sp. z o.o.	Plasser & Theurer, Export von Bahnbaumaschinen, Gessellschaft m.b.H.	investment loan	1 800	EUR	24.03.2020	fixed rate	3 223
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	investment credit	2 500	PLN	30.12.2020	WIBOR 1M + margin	1 396
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	mBank S.A.	overdraft facility	3 000	PLN	odnawialny	WIBOR 1M + margin	-
Przedsiębiorstwo Eksploatacji Ulic i Mostów Sp. z o.o.	ING Bank Śląski S.A.	overdraft facility	3 000	PLN	01.08.2019	WIBOR 1M + margin	-
AB Kauno Tiltai	Nordea Dnb	working capital credit	1 400	EUR	14.01.2020	EURIBOR 3M + margin	2 145
AB Kauno Tiltai	Nordea Dnb	working capital credit	14 000	EUR	31.08.2019	EURIBOR 3M + margin	-
AB Kauno Tiltai	Nordea	working capital credit	3 000	EUR	31.08.2019	EURIBOR 1M + margin	-
AB Kauno Tiltai	Dnb	working capital credit	3 000	EUR	31.08.2019	EURIBOR 3M + margin	-
						Total	**138 245**

The interest rate of loans and borrowings received depends on WIBOR / EURIBOR and bank margin. Bank margins depend on the lending period and the customer's creditworthiness.

Due to the non-compliance with bank covenants contained in financing agreements (details in Note 64 to these financial statements), all loans and borrowings of the Parent Company (except for finance lease liabilities and investment loan from mLeasing Sp. z o.o.) were classified as short-term.

As at 31 December 2018 the Group has at its disposal undrawn credit lines (overdrafts and working capital facilities) in the amount of PLN 148 million and PLN 20 million of contract financing.

The fair value of loans and borrowings does not differ materially from their carrying amounts.

(figures in PLN '000, unless stated otherwise)

40. Other financial liabilities

Under "Other financial liabilities", the Group presents mainly factoring liabilities and other financial liabilities. As at 31 December 2018 and 31 December 2017, the Group carried no factoring liabilities.

41. Derivative financial instruments

Derivaties	31.12.2018 Audited	31.12.2017 Audited
Fair value hedging (assets)	-	-
Fair value hedging (liabilities)	8	5 311
including:		
- recognized among long-term liabilities	8	4 351
- recognized among short-term liabilities	-	960

Cash flow hedging instruments and application of hedge accounting

The Polish companies of Trakcja Group do not apply any hedge accounting, but the Lithuanian part of Trakcja Group, namely AB Kauno Tiltai - AB Kauno Tiltai and UAB Palangos aplinkkelis follow the principles thereof.

On June 5, 2013 one of the Issuer's subsidiaries, i.e. UAB Palangos aplinkkelis made an interest rate swap (IRS) transaction in order to hedge future cash flows expected to arise from interest to be paid on the term loan. Pursuant to the contract, the company is a payee of amounts at a fixed rate, whereas the bank is a payee of amounts at a variable rate. The hedging relationship is set to expire on May 31, 2028.

On October 8, 2015 and October 14, 2015 one of the Issuer's subsidiaries, i.e. AB Kauno Tiltai made two interest rate swap (IRS) transactions in order to hedge future cash flows expected to arise from interest to be paid on the term loan. Pursuant to the contract, the company is a payee of amounts at a fixed rate, whereas the bank is a payee of amounts at a variable rate. The hedging relationships are set to expire on January 14, 2020.

Fair value of the IRS contracts is calculated as the present value of future cash flows estimated using the yield curves. In 2018 the measurement method remained unchanged.

As at 31 December 2018, the effect of valuation of the above hedging instruments on liabilities amounted to PLN 115 thousand and the effect on other comprehensive income was negative and amounted to PLN 221 thousand.

In 2018, the Group assessed the hedge effectiveness of the IRS transactions. In the reporting period, the interest rate hedge was highly effective, and therefore no ineffective part thereof was identified or recognised in profit or loss.

In connection with the information described in Note 34 to these financial statements, the Group transferred the valuation of interest rate swaps concluded by UAB Palangos aplinkkelis to the item “Liabilities of the disposal group classified as held for sale”.

Other derivatives

In the reporting period, the Group did not enter into either any new interest rate swap (IRS) contracts or any derivative contracts for speculation purposes. Except for the aforementioned IRS instruments, the Group did not apply any hedge accounting in the periods subject hereto, and therefore the Group is not a party to any other derivative contracts in the scope covered hereby and no financial derivatives measured at fair value were recognised in profit or loss.

(figures in PLN '000, unless stated otherwise)

The Group categorises financial derivatives within Level 2 of the fair value hierarchy. In 2018 there were no transfers made between Levels 1, 2 and 3.

	31.12.2018 Audited	Level 1	Level 2	Level 3
Derivative financial instruments	**8**	-	8	-

	31.12.2018 Audited	Level 1	Level 2	Level 3
Derivative financial instruments	**5 311**	-	5 311	-

Level 1 – prices quoted on an active market for identical assets or liabilities;

Level 2 – prices from active markets other than quoted market prices, set directly (by comparison with actual transactions) or indirectly (by application of valuation techniques based on actual transaction);

Level 3 – prices other than prices in active markets.

42. Trade liabilities

	31.12.2018 Audited	31.12.2017 Audited
Trade liabilities, before discounting	298 935	282 063
Discounting of liabilities	-	-
Total, net trade liabilities after discounting	**298 935**	**282 063**
including:		
- liabilities from related entities	2 117	808
Amounts held	36 140	15 258
Budgetary liabilities	63 356	31 203
Payroll liabilities	5 648	5 563
Other liabilities towards third parties	3 259	959
Dividends and other distributions	3	3
Total trade and other liabilities	**407 341**	**335 049**

Liabilities to related parties are disclosed in Note 57.

(figures in PLN '000, unless stated otherwise)

Trade liabilities and retentions:

	31.12.2018 Audited	31.12.2017 Audited
Trade liabilities before discounting	335 075	297 321
With maturity within 12 months	322 306	292 280
With maturity over 12 months	12 769	5 041
Liability discounting	-	-
Total, Trade liabilities after discounting	**335 075**	**297 321**

Liabilities maturing in more than 12 months include retentions. The maturity structure of total retentions is presented in the table below:

	31.12.2018 Audited	31.12.2017 Audited
Up to 12 months	22 184	10 439
Over 12 months	13 956	4 818
Total	**36 140**	**15 258**

The Group decided not to recognise the discount of long-term liabilities due to their immateriality.

Due to the short-term nature of trade liabilities, their carrying amount approximates their fair value.

Currency structure of trade and other liabilities:

	31.12.2018 Audited	31.12.2017 Audited
In PLN	324 412	258 286
In foreign currencies - after conversion into PLN, including:	82 929	76 763
in EUR	82 437	76 582
in SEK	220	181
in BGN	24	-
in UAH	248	-
Total	**407 341**	**335 049**

Terms and conditions of payment of liabilities:

Trade liabilities do not bear interest and are, as a rule, paid in 30-60 days. Liabilities maturing in more than 12 months comprise retentions related to the performance of construction and assembly contracts in order to ensure proper and timely performance of the contract. Other liabilities do not bear interest, and their average payment period is one month. The amount resulting from the difference between VAT payable and VAT receivable is paid to the relevant tax authorities within deadlines set out in tax regulations. Interest payable is usually settled based on accepted interest notes.

43. Operating lease liabilities – the Group as a lessee

As at 31 December 2018, the Group recognises the right of perpetual usufruct of land in the amount of PLN 1,567 thousand, acquired free of charge, as operating lease. In the comparable period and also partially in the current reporting period, the Group was also a party to operating lease agreements for machines, equipment, vehicles and other fixed assets. All the lease agreements for the aforementioned fixed assets expired in the current reporting period.

Total minimum lease payments under off-balance sheet operating leases amount to the following:

(figures in PLN '000, unless stated otherwise)

	31.12.2018 Audited	31.12.2017 Audited
Within 1 year	91	91
Within 1 to 5 years	61	363
Over 5 years	975	6 086
Total	**1 127**	**6 540**

The Group recognises also the right of perpetual usufruct of land in the amount of PLN 1,567 thousand, acquired free of charge, as operating lease.

Future charges for perpetual usufruct rights to land:

	31.12.2018 Audited	31.12.2017 Audited
Within 1 year	461	1 011
Within 1 to 5 years	1 846	4 046
Over 5 years	30 344	55 491
Total	**32 651**	**60 548**

Liabilities on account of perpetual usufruct rights to land were estimated based on the annual charges set forth in the most recent administrative decisions and resulting from the periods of use of the land.

44. Finance lease liabilities

The Group uses some of its manufacturing equipment under finance lease agreements. The Group may purchase the equipment leased for its nominal value at the end of the agreements. The Group's liabilities resulting from the finance lease agreements are secured with the rights of lessors to the assets leased.

Future minimum lease payments under these agreements and the present value of the minimum net lease payments are as follows:

	31.12.2018 Audited	31.12.2017 Audited
Nominal value of minimum leasing fees		
Within 1 year	20 052	14 050
Within 1 to 5 years	47 647	28 087
Over 5 years	2 582	3 981
Total financial lease liabilities - total minimum leasing fees	**70 281**	**46 118**
Financial costs on account of financial lease	**(9 596)**	**(3 439)**
Present value of minimum leasing fees		
Within 1 year	16 967	12 628
Within 1 to 5 years	42 163	26 189
Over 5 years	1 555	3 862
Total present value of minumum leasing fees	**60 685**	**42 679**

(figures in PLN '000, unless stated otherwise)

45. Accruals and deferred income

As at 31 December 2018 and 31 December 2017, the Group recognised only short-term deferred income.

46. Information on financial instruments

In the period covered by the annual consolidated financial statements and in the corresponding period, the Group held the following financial instruments:

- financial assets and liabilities measured at fair value through profit or loss – IRS contracts,
- financial assets measured at amortised cost – cash and short-term deposits, trade and other receivables other than receivables from the State budget, short-term borrowings granted to entities outside the Group, bank guarantee deposits to secure guarantees granted to the Group by banks,
- financial liabilities measured at amortised cost – bank loans, lease and factoring liabilities, trade and other liabilities other than liabilities to the State budget.

	Valued at FV through financial result	Financial assets valued at amortised costs	Financial liabilities measured at amortised cost
As at 31.12.2018			
Disclosed in balance sheet, indicating balance sheet item			
recognised as non-current assets			
Other financial assets	-	4 511	-
Total	**-**	**4 511**	**-**
recognised as current assets			
Trade and other receivables (excluding budgetary)	-	325 930	-
Other financial assets	-	13 773	-
Cash and cash equivalents	-	116 687	-
Total	**-**	**456 390**	**-**
recognised as long-term liabilities			
Interest-bearing bank loans and borrowings	-	-	66 371
Other financial liabilities	-	-	61
Derivatives	8	- -	
Total	**8**	**-**	**66 432**
recognised as short-term liabilities			
Interest-bearing bank loans and borrowings	-	-	132 559
Trade and other liabilities (excluding budgetary)	-	-	343 985
Total	**-**	**-**	**476 544**
Total	**8**	**460 901**	**542 977**

(figures in PLN '000, unless stated otherwise)

	Derivative instruments designated as hedging instruments	Loans and receivables	Financial liabilities measured at amortised cost
As at 31.12.2017			
Disclosed in balance sheet, indicating balance sheet item			
recognised as non-current assets			
Other financial assets	-	44 147	-
Total	**-**	**44 147**	**-**
recognised as current assets			
Trade and other receivables (excluding budgetary)	-	322 152	-
Other financial assets	-	14 859	-
Cash and cash equivalents	-	112 184	-
Total	**-**	**449 195**	**-**
recognised as long-term liabilities			
Interest-bearing bank loans and borrowings	-	-	87 661
Other financial liabilities	-	-	87
Derivatives	4 351	-	-
Total	**4 351**	**-**	**87 749**
recognised as short-term liabilities			
Interest-bearing bank loans and borrowings	-	-	28 538
Trade and other liabilities (excluding budgetary)	-	-	303 846
Derivatives	960	-	-
Total	**960**	**-**	**332 384**
Total	**5 311**	**493 342**	**420 133**

(figures in PLN '000, unless stated otherwise)

47. Fair value of financial instruments

Comparison of fair value and carrying amount:

	As at 31.12 2018		As at 31.12 2017	
Classes of financial instruments	**Book value**	**Fair value**	**Book value**	**Fair value**
Loans granted	-	-	213	213
Bank guarantee deposits	15 994	15 994	17 222	17 222
Financial assets related to the concession agreement	-	-	41 571	41 571
Trade and other receivables (excluding budgetary receivables)	325 930	325 930	322 152	322 152
Cash and cash equivalents	116 687	116 687	112 184	112 184
Derivatives (liability)	8	8	5 311	5 311
Loans & credits taken and financial leasing liability	198 930	198 930	116 199	116 199
Trade and other liabilities (excluding budgetary liablities)	343 985	343 985	303 846	303 846

Financial instrument valued at fair value	**Level 1**		**Level 2**		**Level 3**	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Derivatives (liability)	-	-	8	5 311	-	-

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

Due to a short-term nature of trade and other receivables and trade and other liabilities, as well as cash and cash equivalents, the carrying amounts of these financial instruments are close to their fair value.

Any borrowings granted and any loans and borrowings incurred are based on the variable market rates linked to WIBOR, and therefore their fair values are close to their carrying amounts.

Fair value of the IRS contracts (classified as financial derivatives) is calculated as the present value of future cash flows estimated using the yield curves.

For a financial asset related to a concession arrangement which is recognised in the balance sheet at amortised cost using the effecting interest rate method, the effective interest rate of this asset is similar to the market rates as at the balance sheet date. Therefore, fair value of a financial asset related to a concession arrangement is close to its carrying amount.

The Group applies the following hierarchy when determining and disclosing fair value of the financial instruments measured at fair value, depending on the measurement method adopted:

Level 1 – quoted market prices for similar assets or liabilities in active markets;

Level 2 – prices in active markets other than the quoted market prices – set directly (by comparison with actual transactions) or indirectly (by application of measurement methods based on actual transactions);

Level 3 – prices other than prices in active markets.

Both in the reporting and corresponding periods, there were no transfers between Level 1 and Level 2 of the fair value hierarchy, and no instruments were transferred from Level 2 to Level 3 in the fair value hierarchy.

48. Risk identification

Risk management is mainly focused on the unpredictability of markets and aims to reduce the impact of volatility on the Group's financial results.

<table>
<tr><th colspan="2">Type of risk</th><th>Exposure</th><th>Risk measurement</th><th>Management/Hedging</th></tr>
<tr><td rowspan="2">MARKET RISK</td><td>Exchange rate changes</td><td>- economic currency exposure resulting from inflows decreased by expenses indexed to or denominated in a currency other than the functional currency;
- currency exposure resulting from investment or probable liabilities and receivables in foreign currencies;
- balance sheet exposure resulting from assets and liabilities denominated in foreign currency</td><td>Based on planned cash flows.

Based on analysis of balance sheet items.</td><td rowspan="2">Market risk management policy and hedging strategies, which define principles of measurement of individual exposure, parameters and the time horizon of risk hedging and hedging instruments.</td></tr>
<tr><td>Interest rate changes</td><td>Exposure resulting from assets held and liabilities for which interest income or expenses are based on floating interest rates.</td><td>Based on total gross debt to items for which interest expenses depend on floating interest rates.</td></tr>
<tr><td colspan="2">Liquidity</td><td>Risk of unforeseen shortage of cash or lack of access to financing sources, both in the horizon of short and long-term borrowing, leading to temporary or permanent loss of ability to pay financial liabilities or imposing the need to obtain funds on unfavourable terms.</td><td>Based on planned cash flows in short and long-term horizon.</td><td>Liquidity risk management policy which defines rules of reporting and consolidation of liquidity. The Group pursues a policy of its financing sources diversification and uses a range of tools for effective liquidity management.</td></tr>
<tr><td colspan="2">Loss of cash and deposits</td><td>Risk of bankruptcy of domestic or foreign banks in which accounts are kept or in which cash is invested.</td><td>Regular review of credit rating of banks and setting limits on concentration of funds. Management based on principles of surplus cash management, which determine possibility of granting quotas for individual banks made on the basis of, among others, ratings and reporting data. Cooperation mainly with crediting banks.</td><td>Regular review of credit rating of banks and setting limits on concentration of funds. Management based on principles of surplus cash management, which determine possibility of granting quotas for individual banks made on the basis of, among others, ratings and reporting data. Cooperation mainly with crediting banks.</td></tr>
<tr><td colspan="2">Credit</td><td>Risk of unsettled receivables for delivered products and</td><td>Analysis of creditability and solvency of</td><td>Management based on procedures and policies</td></tr>
</table>

(figures in PLN '000, unless stated otherwise)

	services by customers related to the creditability of customers with whom trade transactions are concluded.	customers.	adopted for management of trade credit and debt recovery including the determination of limits and establishment of collateral.

Currency risk

The Group's activities are not significantly exposed to the fluctuations in foreign exchange rates. Foreign exchange rate fluctuations do not have a significant impact on the Group's financial statements due to the fact that the items disclosed in assets and liabilities denominated in currencies other than the functional currency of each of the subsidiaries are not significant in the context of the Group's financial statements. In accordance with IFRS 7,the sensitivity analysis does not cover any translation risk.

An analysis of impact of the PLN/EUR exchange rate volatility on the profit or loss and on cash as at 31 December 2018 and 31 December 2017 is presented below:

Change of PLN/EUR exchange rate in reference to average exchange rate for 2018		PLN / EUR exchange rate	Gross impact on the period result	Deffered tax	Net impact on the period result / Impact on equity
+	0,20 PLN/EUR	4,4669	(138)	109	(248)
+	0,10 PLN/EUR	4,3669	(69)	55	(124)
-	0,10 PLN/EUR	4,1669	69	(55)	124
-	0,20 PLN/EUR	4,0669	138	(109)	248

Change of PLN/EUR exchange rate in reference to average exchange rate for 2017		PLN / EUR exchange rate	Gross impact on the period result	Deffered tax	Net impact on the period result / Impact on equity
+	0,20 PLN/EUR	4,4576	532	94	626
+	0,10 PLN/EUR	4,3576	266	47	313
-	0,10 PLN/EUR	4,1576	(266)	(47)	(313)
-	0,20 PLN/EUR	4,0576	(532)	(94)	(626)

Change of PLN/EUR exchange rate in reference to exchange rate for 31 December 2018		PLN / EUR exchange rate	Impact on cash assets
+	0,20 PLN/EUR	4,5000	1 261
+	0,10 PLN/EUR	4,4000	630
-	0,10 PLN/EUR	4,2000	(630)
-	0,20 PLN/EUR	4,1000	(1 261)

Change of PLN/EUR exchange rate in reference to exchange rate for 31 December 2017		PLN / EUR exchange rate	Impact on cash assets
+	0,20 PLN/EUR	4,3709	3 000
+	0,10 PLN/EUR	4,2709	1 000
-	0,10 PLN/EUR	4,0709	(1 000)
-	0,20 PLN/EUR	3,9709	(3 000)

(figures in PLN '000, unless stated otherwise)

Interest rate risk

As at 31 December 2018, a risk exists related to the fluctuations in interest rates which may affect the interest rates of loans, borrowings and finance leases contracted by the Trakcja Group. Due to its market position, the Group is able to obtain attractive interest rates on loans, borrowings and leases. In addition, due to the recently declining interest rates, the Group did not take any specific measures aimed at hedging against changes in the interest rates. Loans and borrowings contracted by the Group are described in detail in Note 39.

Based on the expectation that any potential changes in interest rates would be insignificant, the Group decided not to present the sensitivity analysis of an effect of the interest rate fluctuations on the IRSs.

An analysis of impact of the interest rate volatility on the Group's profit or loss as at 31 December 2018 and 31 December 2017 is presented below: For the purpose of analysing the sensitivity to the interest rate fluctuations, such fluctuations were estimated as at 31 December 2018 and as at 31 December 2017 at the rationally expected level, i.e. +1/ -1 percentage point.

	Value at the balance-sheet date	Sensitivity to changes as at 31.12.2018	
		+ 100 pb (PLN, EUR)	- 100 pb (PLN, EUR)
Trade receivables (present value)	288 003		
Trade payables (present value)	298 935		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	132 681	1 327	(1 327)
Assets related to the concession agreement	-	-	-
Loans and credits, factoring liability, bonds (nominal value/interest)	198 930	(1 989)	1 989
Derivatives	8	-	-
Gross impact on period result and net assets		**(662)**	**662**
Deferred tax		(126)	126
Total		**(536)**	**536**

	Value at the balance-sheet date	Sensitivity to changes as at 31.12.2017	
		+ 100 pb (PLN, EUR)	- 100 pb (PLN, EUR)
Trade receivables (present value)	334 961		
Trade payables (present value)	282 063		
Cash and cash equivalents, bank guarantee deposits (nominal value/ interest)	129 406	1 294	(1 294)
Assets related to the concession agreement	41 571	416	(416)
Loans and credits, factoring liability, bonds (nominal value/interest)	116 199	(1 162)	1 162
Derivatives	5 311	(53)	53
Gross impact on period result and net assets		**495**	**(495)**
Deferred tax		94	(94)
Total		**401**	**(401)**

Liquidity risk

Similarly to the majority of entities operating in the construction industry, the Group's sales are also characterised by seasonality which consists in the generation of a significant part of the revenues from sales in the second half of a calendar year and in the generation of significantly lower revenues in the first quarter, which is of significant importance for the management of the Group's liquidity and working capital needs. The Group's liquidity is also affected by the fact that its key customers obtain financial funds for purchases of the Group's services through the subsidies granted by the Republic of Poland and the EU. Legal regulations governing such subsidies do not allow for the funds granted to be used for paying the VAT. It cannot be excluded that the VAT receivables may be paid late by customers, which would not release the Group from the obligation to pay the VAT within the time limits set in the VAT Act.

(figures in PLN '000, unless stated otherwise)

Irregular proceeds from customers may have an adverse impact on the liquidity of the Parent Company and Group. On the other hand, the Group is paid advances between 10% and 20% for the performance of works under construction contracts, which improves its financial liquidity and enables it to finance the initial costs of construction works regardless of when they are invoiced. Any unexpected fluctuations in the liquidity and any unexpected increase in working capital needs may have a significant adverse impact on the Group's financial position.

The Parent Company has failed to comply with bank covenants contained in the financing agreements. In addition, a liquidity gap was identified. For details, see Note 64 to these financial statements.

In order to minimize liquidity risk, the Group uses external sources of financing in the form of loans (working capital facilities, overdraft facilities and investment loans). For details on liabilities on account of loans and borrowings as at 31 December 2018, see Note 39. In addition, the Group invests any surplus cash in interest-bearing current accounts, term deposits, money market deposits, selecting instruments with appropriate maturity or sufficient liquidity in order to ensure a sufficient level of security.

The analysis of the Group's financial liabilities in net amounts by maturity in relation to the period remaining to their contractual maturity as at the balance sheet date is provided in the table below.

As at 31.12.2018 Audited	**In the period 0-90 days**	**In the period 90-360 days**	**From 1 to 5 years**	**Over 5 years**
Interest-bearing loans and borrowings	44 792	70 578	11 218	11 659
Financial lease liabilities	6 283	10 906	56 662	14 240
Trade and other liabilities (except budget liabilities)	309 153	18 804	12 769	-

As at 31.12.2017 Audited	**In the period 0-90 days**	**In the period 90-360 days**	**From 1 to 5 years**	**Over 5 years**
Interest-bearing loans and borrowings	5 786	10 124	29 524	28 086
Financial lease liabilities	4 353	8 275	26 189	3 862
Derivative financial instruments	960	-	4 351	-
Trade and other liabilities (except budget liabilities)	296 093	2 710	5 041	-

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Transactions that expose the Group to credit risk include trade receivables. The Management Board applies a credit policy which requires continuous monitoring of the Group's credit risk exposure. The Group performs interim analyses of the recovery ratios on a quarterly basis and full-scale analyses of those ratios after the end of the year. The Parent Company's Management Board analyses the calculation of ratios and detailed information on disputed and unpaid amounts of individual receivables balances on a quarterly basis.

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

(figures in PLN '000, unless stated otherwise)

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.

The Group has adopted a policy of entering into transactions with counterparties with high creditworthiness and verified credit capacity. Credit capacity is assessed on a regular basis. If the future credit capacity of a counterparty is assessed negatively, the Group companies apply adequate collateral to minimize credit risk. Financial services monitor the balance of receivables on an ongoing basis, thereby reducing the risk of uncollectibility. The carrying amount of financial assets disclosed in the consolidated financial statements corresponds to the Trakcja Group's maximum exposure to credit risk (without collateral). As at the balance sheet date, receivables from PKP PLK S.A. account for 26% of the total receivables of Trakcja Group (31% as at 31 December 2017), therefore there is a significant concentration of credit risk.

For disclosures regarding overdue trade receivables and impairment losses on receivables and expected credit losses, see Note 30.

The Group cooperates with highly-rated financial institutions. The use of credit limits is controlled on a regular basis. Available cash is invested in several banks in order to avoid concentration of risk related to liquid funds.

The maximum exposure to credit risk is equal to the carrying amount of the following financial instruments:

The maximum exposure to credit risk	Book value	
	31.12.2018 Audited	**31.12.2017 Audited**
Financial assets related to the concession agreement	-	41 571
Trade and other receivables, excluding budget receivables	344 612	390 832
Bank guarantees deposits	15 994	17 222
Cash and cash equivalents	116 687	112 184
Total	**477 293**	**561 809**

Objectives and policies of financial risk management

The Group manages its financial risk through the identification, monitoring and reporting of risk factors, which is to reduce the adverse impact of the currency risk factors on the Group's cash flows and performance. The Group measures derivative instruments at fair value. For recording purposes, the Group uses bank valuations. In addition, the Lithuanian part of the Group, i.e. companies of the AB Kauno Tiltai Group, namely AB Kauno Tiltai and UAB Palangos aplinkkelis, apply hedge accounting: interest rate swap (IRS) transactions in order to hedge future cash flows from interest to be paid on the term loan.

(figures in PLN '000, unless stated otherwise)

49. Balance sheet items measured at fair value

The table below presents all the balance sheet items measured at fair value and a fair value hierarchy level assigned to them.

Investment property	Level 1		Level 2		Level 3	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Derivatives (liability side)	-	-	8	5 311	-	-
Investment property	-	-	-	-	20 445	20 097
Office properties	-	-	-	-	15 785	15 438
Land properties	-	-	-	-	2 048	1 715
Deposits of natural aggregates	-	-	-	-	2 612	2 944

Assumptions used in determining fair values:
- of individual categories of investment instruments are described in Note 47 of the Notes,
- of investment properties are described in Note 23 of the Notes.

50. Contingent receivables and liabilities

The Group has contingent receivables and liabilities relating to legal claims arising in the ordinary course of business. The table below presents the Group's contingent receivables and liabilities as at the balance sheet date of 31 December 2018 and 31 December 2017.

	31.12.2018 Audited	31.12.2017 Audited
Contingent receivables		
From related entities due to:	**89 206**	**79 285**
Received guarantees and sureties	88 366	76 107
Bills of exchange received as collateral	840	3 178
Total contingent receivables	**89 206**	**79 285**
From related entities due to:		
From other entities due to:	**2 513 844**	**2 645 100**
Provided guarantees and sureties	897 239	796 255
Promissory notes	449 589	485 219
Mortgages	181 979	149 039
Assignment of receivables	887 692	1 071 118
Assignment of rights under insurance policy	40 483	54 301
Security deposits	24 612	22 174
Other liabilities	32 250	66 994
Total contingent liabilities	**2 513 844**	**2 645 100**

Contingent liabilities due to guarantees and sureties granted for the benefit of other entities are mainly guarantees issued by banks for the benefit of business partners of the Group members as collateral for their claims against the Group arising from the construction contracts performed (performance bonds, retention bonds and advance payment guarantees). Banks have a right of recourse against the Group's companies. Promissory notes are a different form of collateral for the aforementioned bank guarantees. In the period between the balance sheet date and the publication hereof, the Parent Company concluded new agreements for tender bonds, performance bonds and advance payment guarantees in the total amount of PLN 28 347 thousand.

(figures in PLN '000, unless stated otherwise)

As at December 31, 2018, except for the aforementioned contingent receivables and liabilities, the Group had contingent receivables in the amount of PLN 1 306 thousand (as compared to PLN 1 407 thousand) arising from the employment contracts signed with employees. If a manager fails to meet his or her obligations defined in Article 1 of the Non-Competition Agreement, he or she will pay, immediately and without a termination notice or any demand issued by the Group, a contractual penalty in the amount equal to the PLN equivalent of EUR 25,000 for each failure and the amount equal to the PLN equivalent of EUR 1,000 for each day in which such a failure occurs or continues. Contingent liabilities arising from employment contracts with employees were PLN 8 072 thousand as at December 31, 2018 (31.12.2017: PLN 8 600 thousand).

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

51. Operating lease receivables – the Group as a lessor

The Group is a party to lease agreements, in which it acts as a lessor. These agreements pertain to a lease of premises in the properties owned by the Group and to a lease of properties with deposits of natural aggregates. The lessee has no option to purchase the assets leased after the expiry of the agreement.

The future total minimum proceeds from operating leases as at 31 December 2018 and 31 December 2017 were as follows:

	31.12.2018 Audited	31.12.2017 Audited
Within 1 year	610	609
Within 1 to 5 years	3 200	3 200
Over 5 years	480	950
Total	**4 290**	**4 759**

52. Service concession arrangements

Public-private partnership agreement

The Company entered into service concession arrangements in the framework of a public-private partnership involving the grantor (Litewski Urząd Drogowy) and the operator (UAB Palangos aplinkkelis which is a subsidiary of the Issuer). Palangos aplinkkelis UAB ("PAK") was established in 2013 for the purpose of implementation of the investment project consisting in the construction of a road and its further operation in the framework of a public-private arrangement. Pletros investicijos UAB (owned in 75.1% by Trakcja Group and in 24.9% by UAB Šiaulių plentas) is a sole shareholder in PAK. Both companies were established in accordance with the requirements of Litewska Administracja Drogowa and with the tender requirements. The General Contractor of the road works was AB Kauno Tiltai (Trakcja Group subsidiary). In addition to the external source of financing (bank), PAK was granted a borrowing by AB Kauno Tiltai and UAB Siauliu plentas.

The road will be maintained under a contract by AB Kauno Tiltai.

(figures in PLN '000, unless stated otherwise)

In 2018 the following amounts for the provision of construction services were recognised under a concession arrangement in exchange for a financial asset:

- sales revenue of PLN 973 thousand (2017: PLN 956 thousand);

- net profit of PLN 961 thousand (2017: PLN 991 thousand).

The Group recognises financial assets from concession arrangements. The table below presents changes in the financial asset from concession arrangement in the financial year.

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
Balance at the beginning of the period	**41 571**	**45 266**
Increases	**3 368**	**3 455**
Acquisition, establishment	3 368	3 455
Decrease	**(46 215)**	**(4 584)**
Settlement of remunaration given to the operator	(4 597)	(4 584)
Assets held for sale - transfer	(41 618)	-
Exchange rate differences	**1 276**	**(2 567)**
Balance at the end of the period	**-**	**41 571**

The Group has reclassified the asset from concession arrangement to assets held for sale. For details, see Note 34.

53. Significant court cases and disputes

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

Proceedings concerning the Parent Company:

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

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

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

Case against Leonhard Weiss International GmbH

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

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

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

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

Proceedings against PKP PLK S.A.

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

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

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

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

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

On 27 August 2018, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 6,675,193.36 PLN (in words: six million six hundred seventy five thousand one hundred ninety three zlotys and thirty six groszy) along with statutory interest for delay, as compensation for unjust enrichment of the defendant in the form of unpaid remuneration for the performance of additional works related to the implementation of Agreement No 90/132/121/00/17000031/10/I/I of 16 December 2010 for "Designing and execution of construction works on the Kraków - Medyka - State border railway line on the Dębica - Sędziszów Małopolski section in km 111,500 - 133,600 as part of the POIiŚ 7.1-30 project "Modernization of the E30 / CE 30 railway line, Kraków - Rzeszów section, stage III" Tender 2.2 "specified in the Contractor's Applications No. 72 (gas pipeline) and No. 85 (Bystrzyca creek), which constitutes the principal amount of the present claim, i.e. PLN 6,283.547.59 and capitalized interest on the principal for the period from 6 October 2017 to 27 August 2018.The case is at the early stage of proceedings and its resolution date is difficult to predict.

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

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

On 17 January 2019, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 12,296,388.86 PLN (in words: twelve million two hundred ninety-six thousand three hundred eighty-eight zloty and eighty-six grosz) along with statutory interest for delay, as reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0085/15/Z/I for "Continuation of upgrade work on Railway Line E59 (track and subgrade work and track infrastructure work) as part of the POIiŚ 7.1-5.1

project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section" due to circumstances within the scope of responsibility of PKP PLK S.A. The case is at the early stage of proceedings and its resolution date is difficult to predict.

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

a) reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0090/15/Z/I for Construction of civil engineering structures on km 160,857; km 155.170 and km 145.650 of railway line No 271 Wrocław – Poznań, as part of the POIiŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section" – as regards the Partial Contract A – railway viaduct on km 145.650 in Mosina, due to circumstances within the scope of responsibility of PKP PLK S.A.,
b) reimbursement for the costs of additional works performed by the Company, not provided for in the Contractor's Bid for the contract in question.

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

On 2 April 2019, the Company filed a lawsuit for payment against PKP PLK S.A. seeking the amount of 489,147.29 PLN (in words: four hundred eighty-nine thousand one hundred forty-seven zloty and twenty-nine grosz) along with statutory interest for delay, as a reimbursement for additional costs resulting from the extension of the implementation of Agreement No 90/107/0092/15/Z/I for Construction of civil engineering structures on km 160,857; km 155.170 and km 145.650 of railway line No 271 Wrocław – Poznań, as part of the POIiŚ 7.1-5.1 project entitled "Modernization of Railway Line E59 at the Wrocław-Poznań section, Stage III, Czempiń–Poznań section" – as regards the Partial Contract C – railway viaduct on km 160.857 in Mosina, due to circumstances within the scope of responsibility of PKP PLK S.A., The case is at the early stage of proceedings and its resolution date is difficult to predict.

Proceedings concerning subsidiaries:

AB Kauno Tiltai

The investor, AB Lietuvos geležinkeliai, filed a lawsuit against the Consortium, of which a subsidiary, AB Kauno Tiltai, is a member, for a total amount of PLN 63,353,359.83 (EUR 14,989,556.33). The share of Trakcja Group in liabilities (if any) that may arise from these proceedings is 65%. The Group refrained from making any other disclosures related to this court case by invoking clause 92 of IAS 37. According to the Management Board of The Parent Entity those disclosures may reveal information to parties of court proceedings, which can be used in the ongoing proceedings against the interests of the subsidiary AB Kauno tiltai.

54. Dividends paid and declared

In 2018, a dividend was paid by the Company.

On 26 June 2018, the Ordinary General Meeting of the Company adopted a resolution under which the Company's profit for 2017, in the amount of PLN 32,039,476.84, was allocated as follows:

- PLN 5,139,954.80 (i.e. PLN 0.10 per share) allocated to the distribution of dividends,

- PLN 26,899,522.04 allocated to the supplementary capital.

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

The Ordinary General Meeting set the dividend record date for 25 September 2018 and the dividend was distributed on 15 October 2018.

(figures in PLN '000, unless stated otherwise)

55. Assets pledged as collateral

Assets pledged as collateral:

	31.12.2018 Audited	31.12.2017 Audited
Tangible non-current assets	62 716	75 044
Investment property	844	1 211
Inventory	17 244	14 668
Deposits	18 880	17 222
Receivables	5 858	92 289
Cash	28 873	55 341
Total	**134 415**	**255 774**

Pledge was also established over:

- 50% of shares in a subsidiary, BTW (value of the collateral: PLN 11,754 thousand);

- shares in UAB Kelda, a subsidiary belonging to the AB Kauno Tiltai Group (value of the collateral: EUR 377 thousand);

- shares in UAB Palangos aplinkkelis, a subsidiary belonging to the AB Kauno Tiltai Group (value of the collateral: EUR 1,203 thousand).

56. Income, expenses and profit (loss) from discontinued operations

As at 31 December 2018 and 31 December 2017, the Group did not discontinue any operations.

57. Related party disclosures

In 2018, the Group companies did not enter into any material transactions with related parties on non-arm's length terms. Transactions made by the Parent Company and its subsidiaries (related entities) are the arm's length transactions and their nature is a result of the current operations conducted by the Parent Company and its subsidiaries.

Transactions between the Company and its subsidiaries being the Company's related entities are eliminated during consolidation and are not included in this Note. Information about transactions between the Group and other related parties are detailed below.

Total amounts of related-party transactions in the financial year:

Related entities	Financial year	Sale to related entities	Purchases from related entities
Shareholders of parent company:			
COMSA S.A.	1.01.18-31.12.18	5 512	2 595
	1.01.17-31.12.17	52 399	1 381
Total	**1.01.18-31.12.18**	**5 512**	**2 595**
	1.01.17-31.12.17	**52 399**	**1 381**

(figures in PLN '000, unless stated otherwise)

Receivables from and liabilities to related parties as at the end of the financial year concerned:

Related entities	Reporting date	Receivables from related entities	Liabilities towards related entities
Shareholders of parent company:			
COMSA S.A.	31.12.2018	4 038	2 117
	31.12.2017	2 780	808
Total	**31.12.2018**	**4 038**	**2 117**
	31.12.2017	**2 780**	**808**

The Parent Company and its shareholder, COMSA S.A., have signed an agreement for granting to the Parent Company a licence for the entire technical know-how and trademark, as well as for providing intangible goods in the form of competences, industry knowledge and expert knowledge in terms of organisation, operations, sales and technology of COMSA S.A. The agreement was concluded at arm's length. The consideration for the provision of the above services by COMSA S.A. amounted to PLN 2,595 thousand in 2018.

The amounts unpaid are not secured and will be settled in cash. No guarantees were granted to or by the Company. No costs of receivables that are doubtful and at risk, which are due in transactions with the related entities, were recognised in the reporting period.

58. Information on benefits for key personnel

The Management Board of the Parent Company is the key management personnel of the Group.

Remuneration for the Parent Company's Management Board is presented below.

Remuneration of the Management Board	Year ended			
	31.12.2018 Audited		31.12.2017 Audited	
	In Parent company	In subsidiaries	In Parent company	In subsidiaries
Salaries and other current employee benefits	3 955	857	3 151	1 097
Post-employment benefits	491	-	-	-
Benefits due to termination of employment	273	-	-	-
Total	**4 719**	**857**	**3 151**	**1 097**

For details of agreements concluded with managing persons, see section 5.10 and for additional information on remuneration of members of the Management Board and Supervisory Board, see section 5.9 of the Directors' Report on the operations of Trakcja Group and Trakcja PRKiI S.A. in the financial year ended 31 December 2018.

The Management Board members of Trakcja PRKiI were not shareholders, controlling shareholders, jointly-controlling shareholders, or shareholder exerting a significant impact on the entities other than members of Trakcja Group.

In 2018 and 2017, the Parent Company and the Group's management staff did not enter into any significant transactions. In 2018, no borrowings were granted to the Management Board members or Supervisory Board members of Trakcja PRKiI.

(figures in PLN '000, unless stated otherwise)

Remuneration of the Parent Company's Supervisory Board:

Remuneration of the Supervisory Board	**Year ended**			
	31.12.2018 Audited		**31.12.2017 Audited**	
	In Parent company	**In subsidiaries**	**In Parent company**	**In subsidiaries**
Salaries and other current employee benefits	996	479	969	250
Total	**996**	**479**	**969**	**250**

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

Significant events in the financial year are described in detail in Section 2.4 of the Directors' Report on the operations of the Group in 2018. After the balance sheet date and until the date of preparation of these consolidated financial statements, i.e. until 30 April 2019, no events occurred which have not but should have been disclosed in the accounting books for the financial year.

Events after the balance sheet date

Significant construction contracts	**CR**
07.02.2019 The Management Board of Trakcja PRKiI S.A. ("Company", "Issuer") informs that the Company, acting as the Leader of the Consortium with COMSA S.A.U. - as the Consortium Partner - has signed a contract with Municipality of Krakow, which covers conduction of construction works: 'The renovation of tramway track on Krakowska Street at the section Rollego Street – Dietla Street along with renovation of current road system, sidewalks, paths, technical infrastructure, turnout node on Krakowska-Dietla-Stradomska as well as renovation of Dietla Street at the section Bożego Ciała Street – Augustiańska Street and renovation of existing Piłsudski Bridge across the Vistula River'. The net value of the contact is PLN 76,592,220.49. The works are to be finished within 10 months after the date of handing over the construction site, as well as the possibility of using tramway tracks for tram traffic within 8 months after the date of handing over the construction site.	2/2019

Other	**CR**
18.01.2019 The Management Board of Trakcja PRKiI S.A. (the Company) hereby makes public the dates of publication of periodic reports in 2019.	1/2019
18.02.2019 The Management Board of Trakcja PRKiI S.A. (the Company) publishes the financial results for the period of 12 months ended on 31 December 2018.	3/2019
18.02.2019 The Management Board of Trakcja PRKiI S.A. (the Company) adopted a resolution on the commencement of actions aimed at refinancing the Company's existing banking financing and recapitalizing the Company by way of issue of new shares.	4/2019
29.03.2019 The Management Board of Trakcja PRKiI S.A. (the Company) changed terms of periodic reports publication.	5/2019
23.04.2019 29.03.2019 The Management Board of Trakcja PRKiI S.A. (the Company) has decided to recognize write-off of the value of investments in subsidiaries in Trakcja PRKiI's balance sheet in the amount of PLN 10.746 thousand and the value of goodwill in Trakcja Group's consolidated balance sheet in the amount of PLN 24.243 thousand.	6/2019
26.04.2019 AB Kauno tiltai has concluded a sales agreement for companies in UAB Pletros investicijos with its registered office in Lithuania and transfer of rights and obligations, including legally for claims arising from the loan agreement concluded between AB Kauno Tiltai and the company being sold	7/2019

(figures in PLN '000, unless stated otherwise)

60. Financial statements in high inflation periods

The accumulated average annual inflation rate for the last three years for each of the periods covered by these consolidated financial statements did not exceed 100%, and therefore the financial statements did not have to be restated using the consumer price index.

61. Headcount

Average headcount at the Group was as follows:

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
Average employment in the Capital Group during the period:		
Management Board of Parent entity	5	5
Management Boards of subsidiaries	20	15
Administration	271	229
Sales department	31	34
Production division	1 284	1 360
Machine operators	563	252
Technical staff	149	142
Other employees	53	43
Total	**2 376**	**2 080**

As at 31 December 2018, headcount at the Group was as follows:

	31.12.2018 Audited	31.12.2017 Audited
Employment in the Capital Group at the balance sheet date		
Management Board of Parent entity	4	5
Management Boards of subsidiaries	18	15
Administration	280	227
Sales department	106	35
Production division	1 256	1 258
Machine operators	525	255
Technical staff	146	143
Other employees	50	46
Total	**2 385**	**1 984**

62. Assets and liabilities of the company social benefits fund (ZFŚS)

In accordance with the Act on the Company Social Benefits Fund of March 4, 1994, as amended, the company social benefits fund is established by employers that employ more than 20 employees in the equivalent of fulltime job positions. The Group established the fund and has been making regular contributions to this fund in the basic amount. The objective of the fund is to subsidise the Group's social activities, loans granted to its employees and other social costs. The Group set off the fund's assets with its liabilities towards the fund, because such assets are not separate assets of the Group.

The table below present the analysis of assets, liabilities, costs and net balance of the offset assets and liabilities of the fund:

(figures in PLN '000, unless stated otherwise)

	31.12.2018 Audited	31.12.2017 Audited
Loans granted to employees	693	533
Cash	639	1 464
Prepayments	(24)	(25)
Liabilities attributable to the Fund	(1 151)	(1 192)
Balance after compensation	**157**	**780**
Contributions to the fund during the financial period	**1 684**	**1 497**

63. Information on the statutory auditor

Pursuant to a resolution adopted by the Supervisory Board of Trakcja PRKiI, the entity authorised to audit financial statements of the Group and the Parent Company is Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (acting under the business name of Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. K. until March 18, 2018) with its registered office in Warsaw at Al. Jana Pawła II 22.

On July 31, 2017 the Parent Company and Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (acting under the business name of Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. K. until March 18, 2018) entered into an agreement for:

- the examination of the separate and consolidated half-yearly financial statements as at June 30, 2018 in accordance with the International Accounting Standards,
- the audit of the separate and consolidated annual financial statements as at December 31, 2018 in accordance with the International Accounting Standards.

The agreement is concluded for the period of completion of its subject.

Remuneration for the audit of selected companies within Trakcja Group is paid under separate agreements

concluded between the entity authorised to audit financial statements and each of the selected Group members.

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

	Year ended	
	31.12.2018 Audited	31.12.2017 Audited
On account of agreement for financial statement audit	239	236
On account of agreement for financial statement review	76	76
On account of other agreements	21	41
Total	**336**	**353**

In 2018, the key statutory auditor and the audit firm provided the Group companies with the following non-audit services:

- assurance services for the Company's Integrated Annual Report for 2017, which involved the assessment of the quality and completeness of the data collected and of its compliance with the International Reporting Guidelines and the Global Reporting Initiative.

- review of the Respect Index questionnaire.

64. Risk to the Parent Company's ability to continue as a going concern and measures taken and planned by the Parent Company's Management Board

Trakcja PRKiI S.A. is the Parent Company of the Trakcja Capital Group. The Group's condition is closely dependent on the condition of the Parent Company.

Going concern

These financial statements for 2018 were prepared based on the going concern assumption and, therefore, do not contain any adjustments in respect of different policies for the recognition and measurement of assets and liabilities that would be required if the going concern assumption was unjustified.

The Management Board of the Company presented the following information on the current financial standing of the Company, indicating the risk to the Company's going concern status in the period of twelve months from the date of preparation of the financial statements.

Risk to the going concern status

As at the balance sheet date, the Company reported a net loss of PLN 86,687 thousand and a negative net working capital of PLN 96,158 thousand.

As at the balance sheet date, total financial liabilities on account of loans and leases amounted to PLN 205,812 thousand (long-term portion: PLN 60,989 thousand, short-term portion: PLN 144,823 thousand).

As at the balance sheet date, trade liabilities amounted to PLN 252,261 thousand, including overdue liabilities of PLN 86,540 thousand. Where possible, they are settled by the Company using current proceeds.

In current report No 3/2019 of 18 February 2019 (Preliminary financial results for 2018) the Company informed about the risk of non-compliance with covenants.

The Company is required to comply with financial covenants related to its current financial standing and set forth in loan agreements concluded with the following banks:

- Bank Polska Kasa Opieki S.A.

- ING Bank Śląski S.A.

- mBank S.A.

- Credit Agricole Bank Polska S.A.

- Haitong Bank S.A. Spółka Akcyjna, Branch in Poland (no debt outstanding as at the date of the financial statements)

The figures presented in these financial statements indicate that the Company has failed to comply with the covenants contained in agreements with the aforementioned banks. Due to this non-compliance, the Parent Company's bank loans were presented in the financial statements as short-term loans. On 9 April 2019, the banks made an oral declaration to refrain from any actions related to the exercise of their rights under the loan agreements and expressed their readiness to enter into negotiations on debt refinancing and long-term financing.

In view of the above factors, there is a risk to the Company's ability to continue as a going concern.

General situation of the Company and measures taken

2018 proved to be a very challenging year for the construction industry. An increased demand for working capital was also caused by, subcontractors' pressure on accelerated payments of liabilities resulting from, among others, the introduction of VAT reverse charge mechanism on construction services. The aforementioned factors put pressure on liquidity in the construction market, thus, causing a risk related with the possibility of raising sufficient funds in order to execute current and future contracts. Furthermore, as of the end of 2016, a noticeable increase in the prices of infrastructural construction materials, costs of subcontractors and labour costs has been observed. In 2018, the Parent Company saw a significant increase in the scale of its operations which resulted in additional needs related to financing the working capital.

The above factors were reflected in the Parent Company's financial performance.

In the course of preparing the financial statements for 2018, the Company updated the budgets of construction contracts. As a result of revaluations, margins on certain contracts were reduced. Contracts for which margins were reduced were almost entirely acquired in the period until mid-2017, characterised by high pressure on the value of bids as a result of a prolonged investment gap.

As a consequence, the Parent Company reported the following results for the 12-month period ended 31 December 2018:

gross profit/loss on sales: PLN -124,958 thousand (2017: PLN 42,695 thousand)

EBITDA: PLN -86,986 thousand (2017: PLN 32,780 thousand)

net profit/loss: PLN -86,687 thousand (2017: PLN 32,040 thousand)

The current order backlog increased by approximately 45% as compared to 2018, and amounted to approximately PLN 2.2 billion net as at 31 December 2018. In the period from 1 January 2018 to 31 December 2018, the Parent Company signed agreements of a total net value exceeding PLN 1.5 billion, most of which exceeded investor budgets. This provides a positive outlook on the future performance of the Parent Company.

Due to the fact that in previous years the Company made significant investments in railway and construction equipment and purchased shares in Bahn Technik Wrocław Sp. z o.o., a company with a significant equipment base, the Company is fully prepared to carry out construction tasks and plans investments at a much lower level, mainly in the area of replacement activities financed by leases.

Additionally, in its profit or loss for 2018, the Parent Company does not take into account the value of lawsuits filed by the Company against contracting authorities, for which the total gross amount of the claims is approximately PLN 109,255 thousand. Other contractual claims in the net amount of PLN 152,400 thousand, pursued out of court, are also not included in profit or loss.

In addition to activities that contribute to the improvement of future financial performance, the Parent Company's Management Board is also focused on the Company's liquidity situation. The Parent Company pursues an active liquidity management policy by monitoring liquidity on an ongoing basis in the short and long-term perspective (including a weekly monitoring of cash flows), aiming at maintaining a stable level of available financing. In order to maintain liquidity, the Parent Company undertakes actions aimed at winning contracts which provide for advance payments. In addition, the Parent Company pursues an active policy of maintaining a low level of receivables, managing inventories and selling key materials to the ordering party at the initial stage of a contract. It also is in the process of negotiations with subcontractors to extend payment terms. The Parent Company places great emphasis on optimising the invoicing processes by shortening the period between the completion of works and their invoicing.

As at 31 December 2018, the Parent Company held cash and cash equivalents in the amount of PLN 61,451 thousand and unused credit lines in the amount of PLN 27,219 thousand, as well as PLN 20,000 thousand of contract financing. Credit lines available as at the balance sheet date are presented in Note 29 to the Company's financial statements.

As at the day preceding the preparation of these financial statements, the company held cash in the amount of PLN 20,675 thousand and unused credit lines in the amount of PLN 4,657 thousand, as well as PLN 17,732 thousand of contract financing. The Company estimates the demand for additional financing at PLN 150-170 million, and plans to raise it through increased debt financing and capital increase.

Refinancing of debt

Despite the increased caution of banks as to the increase of their exposure in the construction services sector, the Parent Company extended loan agreements with the value of PLN 50,000 thousand, including:

a) in order to finance operations of subcontractors and suppliers under two road construction contracts in the amount of PLN 20,000 thousand with ING Bank Śląski S.A.; maturity date: 10 May 2019
b) in order to finance operations of subcontractors and suppliers in the amount of PLN 30,000 thousand with mBank S.A.; maturity date: 30 May 2019.

In order to fill the financing gap described in the above paragraph, as announced in current report No 4/2019 of 18 February 2019 (Commencement of actions aimed at refinancing of the Company and recapitalizing the Company) the Company is in the process of negotiations with banks and insurance companies, aimed at ensuring additional credit and guarantee financing and raising additional capital for the Company. The Company negotiates participation in credit financing and recapitalisation with the following financial institutions: mBank S.A., Credit Agricole Bank Polska S.A., Bank Pekao S.A., ING Bank Śląski S.A., its shareholder – COMSA – and with two entities whose names cannot be disclosed by the company at this stage. The Company negotiates participation in the guarantee financing with the following entities: STU Ergo HESTIA S.A., KUKE S.A., PZU S.A., Generali TU S.A., CREDENDO, AXA Ubezpieczenia TUiR S.A., InterRisk S.A., TUiR Allianz Polska S.A., Gothaer TU S.A., UNIQA TU S.A. At the same time, the Company is in the process of negotiating new bank guarantee limits. The Company will notify of further significant steps in the above process by way of appropriate reports.

The Company plans to complete the process of raising new financing and increasing its capital by the end of the second quarter of this year. The company received a letter of intent from its shareholder, COMSA, confirming its willingness to participate in both bridge financing and capital increase.

In order to ensure uninterrupted operations until long-term financing is obtained, the Company is at an advanced stage of negotiations concerning bridge loan financing of up to PLN 51,000 thousand and guarantee financing of up to PLN 68,400 thousand with mBank S.A. and Credit Agricole Bank Polska S.A., its shareholder, COMSA, and insurers. On 29 April 2019, the aforementioned institutions and the Company signed a termsheet confirming the advanced status of the process.

The termsheet document is a starting point for further negotiations, does not constitute a preliminary agreement or a proposal and is not legally binding. The termsheet document signed by the Company contains a number of conditions that must be met in order to secure bridge financing, such as: collaterals, submission of representations by the Company, disclosure obligations of the Company, general obligations, breaches, conditions precedent, etc. (these are customary conditions for such transactions). In the Company's opinion, there is no significant risk of failure to meet the aforementioned conditions. The Company will notify of further significant steps in the above process by way of appropriate reports.

The Company is making every effort to ensure that the agreements are signed and the bridge financing is disbursed in May 2019. The expected signing of agreements depends primarily on obtaining approvals from credit committees of banks and insurers involved in bridge financing.

It should be stressed that the bridge financing will be replaced by the target financing described above.

New contracts won

The Parent Company continues to actively participate in tender procedures for the railway and road construction markets, currently characterised by a smaller number of participants. Decreased pressure from competitors results from saturation of the market with projects in relation to the contracting potential of construction companies in Poland. The current market trend shows that bids from contractors that significantly exceed investor budgets are more and more frequently accepted by contracting authorities.

The Parent Company, as a consortium leader, submitted the best bid in the following tender procedures:

a) "Reconstruction of track system together with auxiliary infrastructure at the E59 railway line, Choszczno–Stargard section" (hereinafter: the Choszczno–Stargard contract) with a share in the consortium worth PLN 244,975 thousand, gross.
b) "Reconstruction of track system together with auxiliary infrastructure at the E59 railway line, Stargard–Szczecin section" (hereinafter: the Stargard–Szczecin contract) with a share in the consortium worth PLN 361,645 thousand, gross.
c) "Revitalization of railway lines No 694/157/190/191 Bronów – Bieniowiec – Skoczów – Goleszów – Cieszyn/Wisła Głębce" worth PLN 429,531 thousand, gross. The Parent Company has won the auction for the aforementioned tender and is waiting for the selection of the bid. None of the companies participating in the auction appealed against the outcome of the auction.

In the first two of the aforesaid proceedings, the contracting authority plans to make advance payments of 10% of the contract value, i.e. in the amounts of PLN 24,498 thousand and PLN 36,165 thousand, respectively. The Company is awaiting the conclusion of agreements. The advance payment for the Choszczno–Stargard contract is expected to be received in the first half of May 2019, whereas the advance payment for the Stargard–Szczecin contract is expected to be received by the Company at the end of June 2019. The condition for signing both contracts is to obtain a performance bond, the condition for disbursement of the advance payment is to present an advance repayment guarantee from a bank. At present, the company does not hold the required guarantees, but they are included in the bridge financing under negotiation.

Sale of non-operating assets

As part of its efforts to improve liquidity, the Company actively seeks to sell non-operating assets that remain in the Group, mainly real estate. In 2018, the Parent Company sold a plot of land at ul. Lotnicza in Wrocław for PLN 53,000 thousand. In accordance with the terms of the sales contract, the payment is deferred. The proceeds from this transaction will be used to repay a loan of PLN 50,000 thousand with mBank.

The Company plans to sell further non-operating assets, including the sale of real estate at ul. Oliwska in Warsaw for a price of not less than PLN 14,000 thousand, sale and leaseback of the real estate in Bieńkowice in the amount of not less than PLN 40,000 thousand, with own contribution at the level of 20%–40%, as announced in current report No 23/2018, as well as sale and leaseback of machinery and equipment in subsidiaries of the Trakcja Group in the total amount of approx. PLN 64,000 thousand until the end of the second quarter of 2019.

With regard to the above efforts, the Management Board is engaged in advanced negotiations with a potential buyer of the real estate at ul. Oliwska and with potential lessors. The Company is in contact with lessors who make further negotiations on the latter two transactions conditional on the Company obtaining bridge financing and further progress as regards long-term financing.

In addition, the Management Board of the Company negotiates the receipt from PKP PLK of payment for contractual claims pending before courts. As at the date of publication of these statements, the total gross amount of these claims is PLN 120,844 thousand. The Company is engaged in negotiations with PKP PLK with the participation of the General Counsel's Office.

In the opinion of the Management Board, the steps taken and the analysis of risk factors allow the Company to assume that it will be able to continue as a going concern, particularly in the period of at least twelve months from the date of publication of these financial statements.

Risk of failure of steps taken

The Parent Company's Management Board prepared the consolidated financial statements on a going concern basis. The going concern status of the Group depends on the successful conclusion of the debt refinancing process. Any failure to achieve the expected effects of the refinancing steps taken may pose a threat to the Parent Company's ability to continue as a going concern.

In case of failure of the above mentioned efforts related to the process of recapitalisation and refinancing of the Company's operations, the Management Board considers the possibility of adopting an alternative action plan:

1. Operating restructuring consisting in the disposal of assets not used in the Company's operating activities, including shares in subsidiaries, property, plant and equipment, and the continuation of activities aimed at improving liquidity, as described in the note above.
2. Reduction of the scale of the company's operations.
3. Negotiations with the Company's creditors regarding the restructuring of debt together with the simultaneous implementation of measures permitted by the applicable laws to protect the Company and the interests of creditors and shareholders.

Warsaw, 30 April 2019

Marcin Lewandowski

President of the Management Board

Paweł Nogalski

Vice-President of the Management Board

Marek Kacprzak

Vice-President of the Management Board

Maciej Sobczyk

Vice-President of the Management Board

Aldas Rusevičius

Vice-President of the Management Board

Person preparing the financial statements:

Sławomir Krysiński

Director of Financial Reporting
in Trakcja Group

STATEMENT OF THE SUPERVISORY BOARD OF TRAKCJA PRKII S.A. PREPARED ON THE BASIS OF §70 TITLE 1 POINT 7 AND § 71 TITLE 1 POINT 7 OF THE REGULATION OF THE MINISTER OF FINANCE ON CURRENT AND PERIODICAL INFORMATION PROVIDED BY ISSUERS OF SECURITIES AND ON CONDITIONS UNDER WHICH INFORMATION REQUIRED BY LEGAL REGULATIONS OF A THIRD COUNTRY MAY BE RECOGNISED AS EQUIVALENT

STATEMENT OF THE SUPERVISORY BOARD OF TRAKCJA PRKII S.A. REGARDING THE POLICY OF SELECTION AN AUDIT FIRM

The Supervisory Board declares that:

1. The entity authorized to conduct audit of the annual standalone financial statement of Trakcja PRKiI S.A. for the period from January 1, 2018 to December 31, 2018 and the annual consolidated financial statement of Trakcja Group for the period from January 1, 2018 to December 31, 2018, ie. Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k., was selected in compliance with the law, in particular regarding the auditor selection procedure.
2. The audit firm and the members of the audit team met the conditions for drawing up an impartial and independent audit report on the annual standalone financial statement of Trakcja PRKiI S.A. for the period from January 1, 2018 to December 31, 2018 and the annual consolidated financial statement of Trakcja Group for the period from January 1, 2018 to December 31, 2018 in accordance with applicable regulations, professional standards and professional ethics.
3. The applicable regulations related to the rotation of the audit firm and the key statutory auditor as well as obligatory grace periods are observed in Trakcja PRKiI S.A.
4. Trakcja PRKiI S.A. has a policy regarding the selection of an audit firm and a policy regarding the provision of additional non-audit services by an audit firm, an entity related to an audit firm or a member of its network, including conditionally exempted services by an audit firm.

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Dominik Radziwiłł
Chairman of the Supervisory Board

Michał Hulbój
Member of the Supervisory Board

……………………………………….. ………………………………………..

Wojciech Napiórkowski-
Member of the Supervisory Board

Łukasz Rozdeiczer-Kryszkowski
Member of the Supervisory Board

……………………………………….. ………………………………………..

Miquel Llevat Vallespinosa
Member of the Supervisory Board

Jorge Miarnau Monserrat
Member of the Supervisory Board

………………………………………..

Fernando Perea Samarra
Member of the Supervisory Board

Assessment based on the Resolution of the Supervisory Board of Trakcja PRKiI S.A. from April 30, 2019

ASSESSMENT OF SUPERVISORY BOARD OF TRAKCJA PRKII S.A. CONCERNING THE REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES OF TRAKCJA PRKII S.A. AND TRAKCJA GROUP IN 2018, THE ANNUAL STANDALONE FINANCIAL STATEMENT OF TRAKCJA PRKII S.A. FOR THE PERIOD FROM JANUARY 1, 2018 TO DECEMBER 31, 2018 AND THE ANNUAL CONSOLIDATED FINANCIAL STATEMENT OF TRAKCJA GROUP FOR THE PERIOD FROM JANUARY 1, 2018 TO DECEMBER 31, 2018

I. SUBJECT MATTER OF THE ASSESSMENT

The subject matter of this assessment includes:

1. The Report of the Management Board on the activities of Trakcja Group and Trakcja PRKiI S.A. in 2018.
2. Annual standalone financial statement of Trakcja PRKiI S.A. for the period from January 1, 2018 to December 31, 2018 prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at December 31, 2018.
3. Annual consolidated financial statement of Trakcja Group for the period from January 1, 2018 to December 31, 2018 prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at December 31, 2018.

II. ASSESSMENT OF THE MANAGEMENT BOARD'S REPORT AND FINANCIAL STATEMENTS

1. Assessment of the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKiI S.A. in 2018

   The Supervisory Board of Trakcja PRKiI S.A. assessed the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKiI S.A. in 2018 and reviewed the results of the audit presented by an auditor of Trakcja PRKiI S.A. (Deloitte Audyt Spółka z ograniczoną odpowiedzialnością, Sp. k.), the auditor report and based on information and materials received from the Auditor, the Management Board and representatives of the Company, concluded that the report:
   - has been prepared in accordance with Article 49 of the Act of 29 September 1994 on Accounting (Journal of Laws of 2019, item 351) and § 70 and § 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognized as equivalent;
   - is consistent with the information contained in the annual standalone financial statement of Trakcja PRKiI S.A. for the period from January 1, 2018 to December 31, 2018 and annual consolidated financial statement of Trakcja Group for the period from January 1, 2018 to December 31, 2018.

   The Supervisory Board of Trakcja PRKiI S.A. on the basis of information and materials received from the Auditor, the Management Board and the Company's representatives concludes that the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKiI S.A. in 2018 is consistent with the information contained in the annual standalone and annual consolidated financial statements and with all knowledge about Trakcja Group and Trakcja PRKiI S.A. and their surroundings obtained during an audit of annual standalone and consolidated financial statements, contains a description of all material events that may have an influence on financial position of Trakcja Group and Trakcja PRKiI S.A. and performance over the upcoming quarters as well as a description of all material risks.
   Further to the foregoing, the Supervisory Board of Trakcja PRKiI S.A. expresses a positive assessment of the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKiI S.A. in 2018.

2. Assessment of the annual standalone financial statement of Trakcja PRKiI S.A. for the period from January 1, 2018 to December 31, 2018

   The Supervisory Board of Trakcja PRKiI S.A. assessed the annual standalone financial statement of Trakcja PRKiI S.A. for the period from January 1, 2018 to December 31, 2018 comprised of:
   a) standalone income statement for the period from January 1, 2018 to December 31, 2018 showing a net loss of PLN 86,687 thousand

b) standalone statement of comprehensive income for the period from January 1, 2018 to December 31, 2018 showing a negative value of comprehensive income of PLN 86,722 thousand,
c) standalone balance sheet as at December 31, 2018 showing assets and liabilities in the total amount of PLN 1,256,817 thousand,
d) standalone statement of cash flows for the period from January 1, 2018 to December 31, 2018 showing increase in net cash by PLN 40,833 thousand,
e) standalone statement of changes in equity for the period from January 1, 2018 to December 31, 2018 showing decrease in equity by PLN 91,893 thousand,
f) additional information and explanations,

and reviewed the results of audit presented by an auditor of Trakcja PRKiI S.A. (Deloitte Audyt Spółka z ograniczoną odpowiedzialnością sp. k.).

The Supervisory Board of Trakcja PRKiI S.A. on the basis of information and materials received from the Auditor, the Management Board and the Company's representatives concludes that the annual standalone financial statement of Trakcja PRKiI S.A. for the period from January 1, 2018 to December 31, 2018 presents the financial position of Trakcja PRKiI S.A. as at December 31, 2018 and financial result and cash flows of Trakcja PRKiI S.A. for the period from January 1, 2018 to December 31, 2018 fairly and clearly and was prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at December 31, 2018 and is consistent with books and records as well as facts.
Further to the foregoing, the Supervisory Board of Trakcja PRKiI S.A. subjected to note 10 of additional informational to Financial Statements [Risk of continuing (business) activity and taken and planned actions of the Management] assessed an annual standalone financial statement of Trakcja PRKiI S.A. for the period from 1 January 2018 to 31 December 2018.

3. Assessment of the annual consolidated financial statement of Trakcja Group for the period from January 1, 2018 to December 31, 2018

The Supervisory Board of Trakcja PRKiI S.A. assessed the annual consolidated financial statement of Trakcja Group for the period from January 1, 2018 to December 31, 2018 comprised of:
a) consolidated income statement for the period from January 1, 2018 to December 31, 2018 showing a net loss of PLN 110,172 thousand,
b) consolidated statement of comprehensive income for the period from January 1, 2018 to December 31, 2018 showing a negative value of comprehensive income of PLN 101,566 thousand,
c) consolidated balance sheet as at December 31, 2018 showing assets and liabilities in the total amount of PLN 1,542,936 thousand,
d) consolidated statement of cash flows for the period from January 1, 2018 to December 31, 2018 showing increase in net cash by PLN 4,503 thousand,
e) consolidated statement of changes in equity for the period from January 1, 2018 to December 31, 2018 showing decrease in equity by PLN 107,654 thousand,
f) additional information and explanations,

and reviewed the results of audit presented by an auditor of Trakcja Group (Deloitte Audyt Spółka z ograniczoną odpowiedzialnością sp. k.).

The Supervisory Board of Trakcja PRKiI S.A. on the basis of information and materials received from the Auditor, the Management Board and the Company's representatives concludes that the annual consolidated financial statement of Trakcja Group for the period from January 1, 2018 to December 31, 2018 presents the financial position of Trakcja Group as at December 31, 2018 and financial result and cash flows of Trakcja Group for the period from January 1, 2018 to December 31, 2018 fairly and clearly and was prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at December 31, 2018 and is consistent with books and records as well as facts.

Further to the foregoing, the Supervisory Board of Trakcja PRKiI S.A. subjected to note 64 of additional informational to Financial Statements [Risk of continuing (business) activity and taken and planned actions of the Management] assessed of an annual consolidated financial statement of Trakcja Group for the period from 1 January 2018 to 31 December 2018.

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

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of Trakcja PRKiI S.A.

Report on the Audit of the Annual Consolidated Financial Statements

Opinion

We have audited the annual consolidated financial statements of the group (the "Group") with Trakcja PRKiI S.A. as the parent (the "Parent"), which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (the "consolidated financial statements").

In our opinion, the consolidated financial statements:

- give a true and fair view of the economic and financial position of the Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards, as endorsed by the European Union, and the adopted accounting policies;
- comply, as regards their form and content, with the applicable laws and the articles of association of the Parent.

Our opinion is consistent with the Additional Report to the Audit Committee, which we issued on April 30, 2019.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") in a version adopted by the National Council of Statutory Auditors as the Polish Standards on Auditing ("PSAs") and in compliance with the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11, 2017 (the "Act on Statutory Auditors", Journal of Laws of 2017, item 1089, as amended) as well as Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities ("EU Regulation", Official Journal of the European Union L158). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants ("IFAC Code"), adopted by resolution of the National Council of Statutory Auditors, together with the ethical requirements that are relevant to the audit of the financial statements in Poland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC Code. Throughout the audit, both the key statutory auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and in the EU Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 64 "The Parent's Going Concern Risk. Measures Planned and Adopted by the Management Board" in the consolidated financial statements, which indicates that the Group incurred a net loss of PLN 110,172 thousand during the year ended December 31, 2018. The consolidated financial statements were prepared on the assumption that the Group will continue as a going concern. The Group's ability to continue as a going concern depends on the effectiveness of the Parent's debt refinancing process. If it fails to achieve the desired effects, the Group's ability to continue as a going concern may be impaired. As stated in Note 64, these events or conditions, along with other matters as set forth in Note 64, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They encompass the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We summarized our response to those risks and, where appropriate, we presented the key findings related to those risks. We do not provide a separate opinion on these matters.

Key audit matter	**How we addressed the matter**
Going concern	
The accompanying consolidated financial statements were prepared on the assumption that the Group will continue as a going concern in the foreseeable future, i.e. within at least 12 months of the end of the reporting period. Due to a number of factors which exerted a significant pressure on the Parent's liquidity as at and after the balance sheet date, the Parent took measures to refinance its current debt and secure new funds to reduce the pressure on liquidity. The Parent is currently negotiating a comprehensive package to restructure its debt. The Parent's Management Board's assessment of the ability to continue as a going concern requires a judgment about the future effects of events or conditions existing at a specific point in time, which entails an inherent uncertainty and is relevant to the measurement of assets and liabilities as well as the calculation of profit or loss. Therefore, we consider this to be a key audit matter. In Note 64 "The Parent's Going Concern Risk. Measures Planned and Adopted	As part of our audit procedures, we obtained an understanding of: – the Parent's short-term cash flow projection covering the period from April 2019 to August 2019 and a long-term cash flow projection for the years 2019–2022; – the official position of the Parent's Management Board presenting the plans, assumptions and assessment of the ability to continue as a going concern within 12 months of the balance sheet date. The said projections, their key assumptions and the official position of the Parent's Management Board were discussed with representatives of the Parent's Management Board. We read the preliminary terms and conditions of the short-term financing scheme, which are the first step in the long-term debt restructuring package, which the Parent's Management Board received and which were officially confirmed by certain financial institutions, as well as draft agreements

Key audit matter	How we addressed the matter
by the Management Board", the Parent's Management Board presents the factors and measures considered in the preparation of the Group's financial statements on the going concern assumption.	and other documents in connection with the new debt financing scheme. We also read the letter of intent from Comsa S.A.U., the Parent's major shareholder, addressed to the Parent's Management Board and specifying the potential capital supply limits to be provided by the aforesaid entity. Additionally, as part of our procedures: – we held meetings with financial and investment entities involved in the Parent's debt restructuring process and during the meetings we confirmed their intentions regarding the execution of the financial plans presented by the Parent's Management Board; – we held meetings with representatives of the institutions conducting the Parent's due diligence examination to discuss the status of and preliminary conclusions drawn from the work carried out on the instruction of banks and institutions involved in the Parent's debt restructuring process; – we analyzed minutes of the meetings of the Parent's Management Board and the Supervisory Board. Additionally, we conducted audit procedures related to events occurring after the balance sheet date, i.e. we obtained information concerning the current level of cash and discussed with the Parent's Management Board those events which could have a considerable effect on and modify the Parent's Management Board's operating plans as well as the assumptions of the refinancing process. Furthermore, we assessed the disclosure provided in the accompanying financial statements in terms of its completeness.
Assessment of impairment of goodwill	
The Parent has material investments in subsidiaries operating in the construction markets in Poland and in Lithuania. Their acquisition resulted in prior years in the recognition of goodwill presented in the consolidated financial statements as at December 31, 2018 in the amount of PLN 308,782 thousand (Note 24).	In particular, our audit procedures included: • obtaining an understanding and assessment of the process of identification of indications of impairment of goodwill as well as the correctness of the impairment testing methodology based on the applicable financial reporting standards;

Key audit matter	How we addressed the matter
Considering the materiality of the item in the financial statements as well as the complexity of the issue and sensitivity of the test's results to its underlying assumptions, we examined the impairment test in depth. We considered the judgment and estimates related mainly to assumptions about future cash flows, discount rate calculation as well as estimates of the residual values used in the DCF model which is the basis for recognition of the related impairment loss to be the key audit risk. As a result of the test, in the financial year ended December 31, 2018 the Parent's Management Board identified impairment of assets in the Group's financial statements. The total value of the impairment losses on goodwill recognized by the Management Board of the Parent was PLN 24,243 thousand. In Note 24 to the financial statements, the Group provides disclosures about the impairment test, including its results, sensitivity analysis and a description of assumptions.	• a critical assessment of the Parent's Management Board's assumptions and estimates associated with the calculation of the recoverable amount of goodwill, including: – a comparison of the assumptions made as to future cash flows with budgets and medium-term plans, including an assessment of their reasonableness; – an assessment of the assumptions and estimates made for purposes of determination of the recoverable amount of goodwill, including an assessment of the reasonableness of cash-generating unit identification and the impairment methodology in the context of the requirements of IAS 36; – an analysis of the reasonableness of the key macroeconomic assumptions; – an assessment of the methodology of calculation of the residual values beyond the period covered by the medium-term plans and of compliance of such a methodology with the International Financial Reporting Standards; – an analysis of the discount rate calculation methodology; – a review of the Parent's Management Board's analysis of the sensitivity of the key assumptions to the results of the measurement; – an assessment of the correctness and completeness of disclosures in the financial statements of the Group.
Correctness of the accounting for construction contracts	
In 2018, the Group generated revenue from construction contracts of PLN 1,497,858 thousand (Note 13), as a result of which in its financial statements as at December 31, 2018 it recognized a surplus of revenue calculated over billed in the amount of PLN 174,351 thousand within assets (Note 33).	Our audit procedures focusing on the assessment of the correctness of the accounting for construction contracts included: • obtaining an understanding and performing an assessment of the design and implementation of the key controls relevant to the accounting for construction contracts;

Key audit matter	How we addressed the matter
Revenue from such contracts is recognized by the Group in accordance with IFRS 15 "Revenue from Contracts with Customers". Under the standard, revenue is recognized using the percentage-of-completion method, provided that the following criteria have been met: – there is no asset with an alternative use to the Company; and – the Company has an enforceable right to receive remuneration for a supply which has already been provided. The value of revenue recognized during the year depends to a considerable degree on costs that have actually been incurred, determination of an appropriate margin as well as assessment of the stage of completion of contracts, along with the accuracy and completeness of the construction contract budgets. In our opinion the key judgments concern the accuracy and completeness of the construction contract budgets as well as their effect on revenue recognition in the context of the requirements set out in International Financial Reporting Standard 15 "Revenue from Contracts with Customers". The risk of improper identification of all risks in the contract budgets remains the key factor in the Group's operations and has a significant influence on the correctness of the accounting for construction contracts, which is also strongly dependent on the valuation of changes in specifications and in the scope of works. Due to the scale of projects, their complexity, uncertainty of the costs to complete the projects, results of negotiations with the customers, changes in specifications and in the scope of works considerable judgement is involved.	• an analysis of the correctness of the construction contract accounting model, including: – verification of the mathematical correctness of contract accounting and recognition of measurement in the accounting records; – an analysis of the contract portfolio with a view to identifying material contracts that are exposed to risk, which were included in a sample selected for further, detailed procedures; – for selected contracts – an analysis of the status of their performance together with the Contract Directors and, if necessary, with the Management Board; – for selected contracts – an analysis of budget changes during the audited year, along with reconciliation of changes in the projected revenue and costs specified in the budget with source documents; – inspection of selected construction sites so as to confirm the stage of completion of the contract; – obtaining an understanding of the methods used for the accounting for contracts performed in consortia; – an analysis of sensitivity of the contract budgets to rises in the prices of materials, subcontractor services and pays, as forecast for the market; – an analysis of the budgets in terms of the completion of cost recognition; – an analysis of correspondence from lawyers in terms of the recognition of potential claims.

Responsibilities of the Management Board and the Supervisory Board of the Parent for the Consolidated Financial Statements

The Parent's Management Board is responsible for the preparation of consolidated financial statements which give a true and fair view of the economic and financial position of the Group and of its financial performance in accordance with the applicable International Financial Reporting Standards, as endorsed by the European Union ("IFRSs") and the adopted accounting policies as well as the applicable laws and the articles of association of the Parent, and for such internal control as the Parent's Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Parent's Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Management Board and members of the Supervisory Board of the Parent are obliged to ensure that the consolidated financial statements meet the requirements of the Accounting Act of September 29, 1994 (the "Accounting Act", Journal of Laws of 2019, item 351). Members of the Parent's Supervisory Board are responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of an audit does not include an assurance about the future profitability of the Group or the effectiveness or efficiency of the Parent's Management Board in managing the Group's affairs at present or in the future.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Management Board;

– conclude on the appropriateness of the Parent's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
– evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
– obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and that we will communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent's Supervisory Board, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Information, Including the Report on the Activities

Other information includes a report on the Group's activities in the financial year ended December 31, 2018 (the "Report on the Activities"), together with a statement of compliance with corporate governance principles and a non-financial information statement, as referred to in Article 49b.1 of the Accounting Act, which constitute separate parts of the report (together: the "Other Information").

The Management Board's Report on the Activities of the Trakcja Group in 2018 was prepared together with that of Trakcja PRKiI S.A. in accordance with Article 55.2a of the Accounting Act.

Responsibilities of the Management Board and the Supervisory Board

The Parent's Management Board is responsible for the preparation of the Other Information in accordance with the applicable laws.

The Management Board and members of the Supervisory Board of the Parent are obliged to ensure that the Report on the Activities, along with the separate parts, meet the requirements of the Accounting Act.

Auditor's Responsibilities

Our opinion on the consolidated financial statements does not cover the Other Information.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact in our auditor's report. Additionally, under the Act on Statutory Auditors we are obliged to express an opinion on whether the Report on the Activities has been prepared in accordance with the applicable laws and whether it is consistent with the information contained in the consolidated financial statements. Furthermore, we are obliged to state whether a non-financial information statement has been prepared by the Group and to express an opinion on whether the Group has included the necessary information in the statement of compliance with corporate governance principles.

Opinion on the Report on the Activities

Based on our work performed during the audit, we are of the opinion that the Report on the Activities:

- has been prepared in accordance with Article 49 of the Accounting Act and par. 71 of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (the "Current Information Regulation", Journal of Laws of 2018, item 757);
- is consistent with the information contained in the consolidated financial statements.

Furthermore, in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified any material misstatements of the Report on the Activities.

Opinion on the Statement of Compliance with Corporate Governance Principles

In our opinion, the statement of compliance with corporate governance principles contains all the information referred to in par. 70.6.5 of the Current Information Regulation. We are also of the opinion that the information referred to in par. 70.6.5(c)-(f), (h) and (i) of the Regulation, as contained in the statement of compliance with corporate governance principles, is in accordance with the applicable laws and consistent with the information included in the consolidated financial statements.

Information on Non-Financial Information

In accordance with the requirements of the Act on Statutory Auditors, we confirm that the Group has prepared a non-financial information statement, as referred to in Article 49b.1 of the Accounting Act, as a separate part of the Report on the Activities.

We have not performed any assurance services relating to the non-financial information statement and we do not express any form of assurance conclusion thereon.

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Report on Other Legal and Regulatory Requirements

Statement Concerning Provision of Non-Audit Services

To the best of our knowledge and belief, we represent that non-audit services which we have provided to the Parent and to its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services which are prohibited under Article 5.1 of the EU Regulation and Article 136 of the Act on Statutory Auditors. The non-audit services which we provided to the Parent and to its subsidiaries in the audited period have been listed in par. 5.12 in the Report on the Activities.

Appointment of the Auditor

We were appointed as the auditor of the Group's consolidated financial statements by resolution No. 13 of the Parent's Supervisory Board of May 25, 2017. Our total uninterrupted period of engagement to audit the Group's consolidated financial statements is five consecutive financial years, i.e. starting from the financial year ended December 31, 2014.

The key statutory auditor on the audit resulting in this independent auditor's report is Maciej Krasoń.

Acting on behalf of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered seat in Warsaw, entered under number 73 on the list of audit firms, in the name of which the consolidated financial statements have been audited by the key statutory auditor:

Maciej Krasoń
Registered under number 10149

Warsaw, April 30, 2019

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.